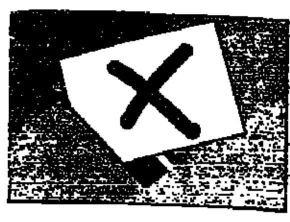

Polls in Germany
Smaller parties await their fate
Page 19

Knives out
US acts against Bangkok's copycats
Page 12

Battle in the air
UK looks for a new helicopter
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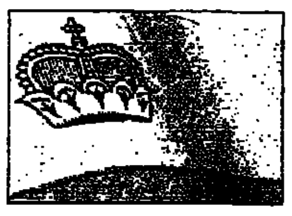

Liechtenstein
Advancing in a virtuous circle
Survey, Pages 13-15

FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY OCTOBER 6 1994 — D8523A

Cut in Germany's jobless bolsters Kohl's campaign

Helmut Kohl's hopes of winning a fourth term as German chancellor on October 16 were boosted by improving unemployment figures – which put the unadjusted total down 140,000 to below 3.5m – and a favourable opinion poll showing support for the ruling coalition steady in the east at 49.3 per cent. Page 20; Much too close to call, Page 19

Mitsubishi, Japanese conglomerate, has joined the bidding to take over the south Wales region of British Coal when the state company is privatised this year. Page 20

Cultists found dead in Swiss villages: Swiss police were seeking two people for questioning in connection with the deaths of 48 people in what may have been a collective cult suicide. Police found 48 bodies after fires in the Swiss villages of Cheiry, near Fribourg, and in burnt-out ski chalets at Granges-sur-Salvan, 160km away. The cult is headed by Luc Jouret (above), a 46-year-old homeopathic doctor who is reported to have fled from Canada to Switzerland after facing prosecution for weapons offences. In Canada, where the cult is known as the Order of the Solar Temple, police launched a probe to determine if an arson fire that killed two people was linked to the Swiss deaths.

Columbia/HCA Healthcare, biggest US hospitals group, is to acquire HealthTrust, owner of the country's second-largest hospital chain, in an all-stock deal valued at about $3bn. Page 21; Lex, Page 20

Four die in Paris shootouts: Three policemen and a taxi driver were killed and six people wounded in two night-time shootouts in the centre of Paris. One suspect was captured by police and another was shot in the head and stomach. Interior Minister Charles Pasqua said investigators were so far unable to explain the motive of the attackers.

James Purdey, the UK's most famous sporting gunmaker, announced it was being sold for an undisclosed sum to Vendôme, the luxury goods group which owns Dunhill and Cartier. Page 21

Seoul warms to foreign investors: South Korea will raise its ceiling on foreign stock investments from 10 to 12 per cent on December 1 and increase the limit to 15 per cent next year, Park Jae-yoon, the new finance minister, said. Page 20

Patten's olive branch: Hong Kong governor Chris Patten offered a working-level role to members of Beijing's shadow Hong Kong cabinet, in a concession aimed at breaking the deadlock on the colony's transition to Chinese sovereignty. Page 4

Little investment in E Europe: Progress in attracting private investment for infrastructure projects in eastern Europe has been painfully slow, said Thierry Baudon, deputy vice-president of the European Bank for Reconstruction and Development. Page 6

Tourists wounded: An Italian and a Spanish tourist were wounded in a hand grenade attack in Bethany village in the occupied West Bank of Israel. Meanwhile in Cairo Israel-PLO ended talks on Palestinian elections ended without any progress on key issues.

Plot fears hit Mexican stocks: Reports of a widening conspiracy behind last week's assassination of José Francisco Massieu, number two official in Mexico's ruling Institutional Revolutionary party, sent the stock market down 2.3 per cent at mid-session. Page 9

Molson, Canadian brewing, retailing and speciality chemicals group, confirmed it was to start exporting direct to the Chinese beer market. Page 25

Bayer, German drugs and chemicals company, plans to set up a worldwide chain of businesses to sell unbranded, generic drugs. Page 25

Austrian emergency: Austria was on nationwide alert for letterbombs after a judge presiding over a neo-Nazi trial in Vienna warned that a new campaign could be under way in the run-up to a general election on Sunday.

Anna 'not Anastasia': Anna Anderson, who for decades claimed to be the grand duchess Anastasia, the youngest daughter of Russia's last tsar, was an imposter, and probably a Polish peasant, according to DNA tests conducted by Peter Gill, a leading British forensic scientist.

STOCK MARKET INDICES

FT-SE 100:	2,956.3	(-45.5)
Yield	4.28	
FT-SE Eurotrack 100	1,286.48	(-26.49)
FT-SE-A All-Share	1,477.82	(-1.3%)
Nikkei	19,751.55	(+182.94)
New York: lunchtime		
Dow Jones Ind Ave	3,753.36	(-47.77)
S&P Composite	449.85	(-4.74)

US LUNCHTIME RATES

Federal Funds:	4¾%	(4 1/32%)
3-mo Treas Bills: Yld	5.103%	(5.072%)
Long Bond	94¾	(95 1/32)
Yield	7.955%	(7.878%)

LONDON MONEY

3-mo Interbank	6 1/16%	(6%)
Liffe long gilt future:	Dec 99 1/32	(Dec 99 3/32)

NORTH SEA OIL (Argus)

Brent 15-day (Nov)	$16.75	(16.96)

GOLD

New York Comex (Dec)	$395.2	(395.6)
London	$392.7	(392.4)

STERLING

New York lunchtime:		
$	1.587	(1.5815)
London:		
$	1.5874	(1.5785)
DM	2.4486	(2.4495)
FFr	8.368	(8.3637)
SFr	2.0294	(2.0354)
Y	157.894	(157.356)
£ Index	80.2	(80.0)

DOLLAR

New York lunchtime:		
DM	1.54105	(1.5457)
FFr	5.265	(5.28625)
SFr	1.276	(1.2845)
Y	99.425	(99.63)
London:		
DM	1.5426	(1.5519)
FFr	5.2717	(5.2987)
SFr	1.2785	(1.2895)
Y	99.47	(99.69)
$ Index	62.1	(62.3)

Tokyo close Y 99.58

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50		
Cyprus	CC1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.80	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Estonia	Ekr 30	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500		
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L30000		
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00		

Lira and bonds fall as markets react to tension over corruption probe

Berlusconi storm grows after inquiry warning

By Robert Graham in Rome

The future of Italy's right-wing coalition was thrown into question yesterday with Mr Silvio Berlusconi, the prime minister, at the centre of an escalating confrontation between the government and the judiciary.

The heightening of the conflict followed an outspoken interview in which Mr Saverio Borrelli, the Milan chief public prosecutor, gave a blunt warning that anti-corruption investigations were closing in around the prime minister.

Mr Borrelli also accused Mr Alfredo Biondi, the justice minister, of misconduct as a defence lawyer. Mr Biondi then offered his resignation, which was unanimously rejected at a special meeting of the Cabinet.

Throughout a day of rapid events, political tensions mounted and prompted scuffles outside the prime minister's office in Rome. Demonstrators who had arrived to oppose cuts in pensions turned their attention to protest against Mr Berlusconi's continued presence as prime minister.

Financial markets reacted nervously. The lira fell at one stage to 1,018 against the D-Mark, compared with 1,005 the previous day. Government bonds slipped to one of their lowest quotations of the year and on the Milan bourse the index fell 2.5 per cent.

The interview with Mr Borrelli in Corriere della Sera prompted an indignant response from the government. Mr Giuliano Ferrara, the chief spokesman and minister for parliamentary relations accused the judge of using "Mafia-style tactics".

President Oscar Luigi Scalfaro discussed the crisis with Mr Berlusconi at a special morning meeting and the two were due to meet again last night, accompanied by the leaders of the two houses of parliament.

The talks with the president were themselves coloured by a row between the head of state and Mr Berlusconi over the presentation of the 1995 budget last Friday. President Scalfaro publicly chided the government for submitting 400 pages of budget text for signature only 15 minutes before the midnight deadline.

Associated Press

Workers demonstrate outside the office of Italian prime minister Silvio Berlusconi in Rome yesterday

In the interview, Mr Borrelli was asked about government attacks on Milan's anti-corruption magistrates the previous day. Mr Berlusconi had accused them of distorting the path of justice to pursue a political vendetta against him and his Fininvest business empire.

"There is no point hiding things," Mr Borrelli said. "It is true we are at a crucial turning point. What has already appeared in the newspapers about Telepiu [the TV channel 10 per cent-owned by Mr Berlusconi] shows clearly we risk touching business and politics right at the top."

In 1990 Mr Berlusconi was obliged under anti-trust laws to divest 90 per cent of his stake in Telepiu in 60 days. Magistrates are investigating whether he retained secret control through friendly shareholders.

It is hard to see how a compromise can be worked out after Mr Borrelli's accusation, even though last night the Milan public prosecutor formally denied that a warrant was pending for Mr Berlusconi in relation to Telepiu.

Brussels lets car dealers off competition rules

By John Griffiths in London, Kevin Done in Paris and Emma Tucker in Brussels

The European Commission yesterday allowed Europe's car manufacturers and dealers to keep their privileged system of exclusive car dealer networks, with some modifications, for another 10 years.

A long-awaited Commission draft document setting out the industry's further exemption from normal EU competition rules was greeted with cautious relief by carmakers and dealers, but consumer groups reacted angrily.

The Commission claimed that proposed changes to the terms of the exemption would make it easier for consumers to seek the best deals in any EU country, and would increase competition in car sales and servicing. Consumer groups said they would "do nothing" for buyers.

The changes include a provision for dealers to be allowed to sell more than one make of car – but only from separate sites under separate management; for dealers to be allowed to buy spare parts from makers other than the car manufacturers and to advertise outside the territory allocated to them; for independent repairers to have access to manufacturers' technical information; and measures to remove obstacles to cross-border trading.

However, manufacturers will still be able to choose which dealers they supply, and the dealers will retain exclusive franchises within clearly defined sales territories for 10 more years after the industry's current "block exemption" from EU competition rules expires on June 1.

The document was described by the Commission as the best way of serving consumer interests through safeguarding standards of sales and servicing for a complex product with important safety considerations.

Ms Valerie Thompson, head of communications at BEUC, the European Consumers Organisation, said: "They are small steps but they have not gone far enough."

Mr Giorgio Garuzzo, chief operating officer of Fiat, the Italian carmaker, and president of ACEA, the European Automobile Manufacturers Association, said some of the proposals "would represent a significant additional cost burden".

Details, Page 6Editorial Comment, Page 19

Russia and banks pave way for talks on debt

By John Gapper in Madrid

Russia cleared the way yesterday for a rescheduling of its $24bn commercial bank debt by reaching a compromise with its 600 creditor banks on a legal obstacle which has blocked progress for the past year.

They agreed a legal framework for re-scheduling bank debt – part of $80bn Russia owes to banks, foreign governments and trade creditors. It is likely to make an initial payment of up to $500m this year.

The compromise was over the banks' earlier call for Russia to waive "sovereign immunity", which would have allowed banks to seize assets if debt was unpaid. Instead of this, Russia made a statement committing itself to payment obligations.

The Russian government intends to follow the agreement – signed yesterday in Madrid at the annual meetings of the International Monetary Fund and World Bank – with attempts to lower other parts of its debt burden.

Mr Christian Vontz, chairman of the London Club of commercial banks, said that the agreement would "give the Russian government a breathing space to deal with its domestic problems" before starting to repay debt.

The banks also agreed to accept the state-controlled Vneshekonombank as the body assuming legal responsibility for the debt.

"Negotiations may take some time, but the result is already there," Mr Vontz said.

The re-scheduling is likely to allow Russia a grace period of five to 10 years before it has to start making capital repayments. The $500m payment covers a portion of interest on the capital due in 1992 and 1993.

Although the agreement does not improve the government's financial position – since it has not been making payments to banks – Mr Alexander Shokhin, deputy prime minister, hailed it as "a vote of confidence".

He said that the deal "signals that Russia is beginning to put

Continued on Page 20

Low mobility hits Russian jobless, Page 5

Reed pays $1.5bn for Mead Data

By Tim Burt

Reed Elsevier, the Anglo-Dutch publishing group, is poised to become the world's largest publisher of legal information after its $1.5bn acquisition of Mead Data Central, the electronic information arm of Mead Corporation, the US paper and forest products group.

The dominant factor in what is a significant expansion in North America will be the integration of Lexis and Nexis, Mead Data Central's online legal and business services, with the group's existing electronic publishing operations.

"This acquisition is a perfect strategic fit for us," said Mr Pierre Vinken, co-chairman, yesterday. "It establishes for Reed Elsevier a leading position in the growing US legal publishing and information markets."

Mead had been seeking to divest MDC since May this year. It finally accepted the Reed Elsevier offer on Tuesday, frustrating rival bids from Times Mirror, the US media group, and Thomson, the Canadian publisher.

Mr Nigel Stapleton, Reed Elsevier's finance director,

Continued on Page 20

North America proves the right connection, Page 21

World markets fall on fears of further rate increase in US

By Philip Coggan in London and Frank McGurty in New York

World equity and bond markets fell further yesterday in the wake of new figures showing that the US economy is growing strongly, heightening fears of an imminent increase in US interest rates.

News of higher-than-expected orders for US manufactured goods in August caused a sharp sell-off in the US Treasury bond market. The 30-year bond fell by nearly a point, driving the yield up to 7.96 per cent in early afternoon trading, close to the psychologically important 8 per cent level.

The weakness of the bond market had a negative effect on share prices. The Dow Jones Industrial Average, which fell 45 points on Tuesday, dropped a further 50 yesterday afternoon, triggering trading restrictions on the New York Stock Exchange. Stocks of companies which are closely linked to the economic cycle – such as heavy equipment manufacturers – were hit the hardest.

Analysts said the markets feared that the Federal Reserve would raise rates in response to a series of recent economic indicators, possibly after employment figures are released on Friday. But some bond investors also worry that the Fed is acting too tardily to slow US expansion, making inflation rise sharply.

Equity investors are concerned that corporate earnings are being squeezed by rising raw material prices which they cannot pass on to customers, say analysts. With shares looking quite expensive relative to bonds in historic terms, any bond market weakness has prompted shares to fall.

European stock markets fell in the wake of the US market weakness, with the German and French markets closing at new 1994 lows. In after-hours trading, the Dax index in Frankfurt was down 2.1 per cent on the day, while in Paris, the CAC-40 index fell 2.3 per cent.

In London, the FT-SE 100 index closed 45.5 points down, or 1.5 per cent, at 2,956.3, to stand at its lowest level since early July. The UK broker James Capel yesterday forecast that the index would end the year at 2,840.

Earlier in the day the US stocks sell-off hit the Hong Kong markets. The Hang Seng index lost 205.76 points, or 2.15 per cent, finishing at 9,298.36.

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World stocks, Back page of Section 2

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Biondi turns the tables on tormentors

Minister's offer to step down could rebound on investigating magistrates who have criticised him, writes **Andrew Hill** in Milan

The on-off resignation yesterday of Mr Alfredo Biondi, Italy's justice minister, looks like the mirror-image of the events of July.

Then, it was Italy's most famous anti-corruption magistrates – Milan's *Mani Pulite* (clean hands) team – who offered their resignation after Mr Biondi tabled a decree banning the use of preventive detention in bribery and corruption investigations. The public outcry forced the government into a humiliating reversal of its policy, and the magistrates returned to their posts.

Mr Biondi's resignation – offered in the morning, refused by the cabinet, and then withdrawn in the afternoon – was in protest at comments by Mr Francesco Saverio Borrelli, the Milan prosecutor who is in charge of the *Mani Pulite* team.

But in spite of its similarities, it may have more serious implications for Italy than the July saga of the magistrates' resignation.

It comes at the end of a torrid four weeks in which the magistrates, in particular Mr Antonio Di Pietro, the best-known member of the Milan team, have been accused of wanting to enter the political arena, a possibility which has made even opponents of Mr Silvio Berlusconi's government uneasy.

In the interview, the daily Corriere della Sera quotes Mr Borrelli as saying that the magistrates have reached "a crucial moment" in their investigations.

In particular, he warns of the risk that their inquiry into alleged corruption at Telepiù, the pay-television channel founded by Mr Berlusconi and since sold to other investors, "could also reach extremely high financial and political levels".

In the interview, Mr Borrelli, who refused to comment yesterday on the repercussions, went on to attack Mr Biondi, not only for his conduct as a minister but also in his previous job as a top defence lawyer.

Mr Biondi could not simply sack Mr Borrelli for his remarks, because only the magistrature's governing body, which is now relatively independent of political control, can dismiss magistrates.

However, the minister's offer to resign is an indication that Mr Borrelli, who is normally a shrewd player of media and public opinion, may have finally overstepped the mark.

On Tuesday, Mr Berlusconi, whose Fininvest business empire is currently the object of seven different legal investigations, accused the magistrates of distorting justice for political ends.

But this is an opinion now shared by a growing number of observers outside the government. This could turn into a backlash against the magistrates, who until now have had almost a free hand to investigate widespread corruption.

The Milan magistrates lent fuel to the accusation of dabbling in politics in September, when they outlined legislative proposals for clearing up the long-running corruption investigation.

Mr Di Pietro himself has not helped matters by publishing a book on the Italian constitution, with a foreword by the wily former Italian president Mr Francesco Cossiga, who said the work marked Mr Di Pietro's "entry into politics" and signalled "an exit route from the crisis for the country".

At the weekend Mr Rocco Buttiglione, leader of the opposition Popular party, the former Christian Democrats, warned that corruption accusations might be levelled at Mr Berlusconi, allowing Mr Di Pietro to become prime minister as the candidate of the extreme right coalition party, the National Alliance.

Meanwhile, lawyers for Mr Sergio Cusani – the financier prosecuted by Mr Di Pietro and jailed for corruption earlier this year – have lodged a complaint against the magistrate, accusing him of slander and abuse of office during the trial.

Mr Di Pietro has vowed not to make any more public statements until after the latest corruption trial, in which he is again prosecuting.

Yesterday, in a courtroom exchange with one witness, he said he had no intention of taking part in political campaigns.

That approach may prove the most fruitful for the magistrates, who are only now reaching the core of their latest investigation into the alleged bribery of anti-fraud police by big Italian companies.

If the government decides to use this latest excuse to rein in the magistrates' powers, then the latest phase of cleaning up Italy's political and business regime could be stalled.

Mr Alfredo Biondi: offered to quit as justice minister in protest at magistrate's comments AP

Brussels aims to reduce set-aside land

By David Gardner in Brussels

The amount of land European Union farmers are obliged to take out of production would be reduced from 15 to 13 per cent, under a proposal approved yesterday by the European Commission.

The decision has to be ratified by member states, but the big farm lobby, with France as its champion, had been pushing for at least such a reduction in fallow land.

The decision will be welcomed by farmers across the Union, who regard the obligation to "set aside" land as iniquitous, and whose organisations had forecast that up to a third of European farmland would be left idle.

The move is confirmation that the 1992 reform of the Common Agricultural Policy is biting. That reform was meant to cut subsidised overproduction through price reductions of up to 30 per cent over three years, and mandatory "set-aside" of land. The reform envisaged that the amount of land to be laid fallow would go up or down, depending on whether output was near target.

The 1994-95 marketing year, the second year of the reform, has seen EU cereals output drop significantly to around 162m tonnes, an increase in set-aside from 4.5m hectares to 5.9m hectares, and a drop in grain stockpiles from 33m to 14m tonnes.

"The combination of CAP reform and a strong world market has resulted in cereals' prices being higher than those foreseen or desired," said Mr Rene Steichen, EU farm commissioner.

Reflecting the sensitivity of the issue, he added: "It would be totally unacceptable to producers if EU policymakers were to insist on a level of set-aside beyond that which is strictly necessary."

The UK Britain blocked EU efforts to agree a strategy to curb carbon dioxide emissions and boost the efficient use of energy, Mr Klaus Töpfer, German environment minister, said after a meeting of the Union environment ministers which ended early yesterday, Reuter reports from Luxembourg.

Mr Töpfer told a news conference he had hoped to combine several existing policies on energy use and CO_2 fossil fuel emissions. "We couldn't agree because of the specific position of Great Britain. No doubt about that."

His plan foundered on objections by Mr John Gummer, the UK minister, to the term "Community taxation measures" in a strategy document, a reference to a suggested EU-level CO_2 or energy tax. Britain has previously opposed any move to increase EU-level involvement in tax matters.

A combination of reform and drought has led to grain shortages in the European Union market and a strong world market price. Thus, the CAP is well in line with the reform's planned output cuts, but perilously above forecast price levels.

The latter has important implications for the EU's ability to meet commitments to cut subsidised exports under the Uruguay Round world trade agreement, due to come into force in the farm sector next summer.

With EU grain prices now about 25 per cent above world levels, the Union is still paying out the export subsidies which the Uruguay Round will gradually cut back. But the set-aside reduction would boost grains output by about 4m tonnes, weakening prices and the cost of inputs for livestock and poultry.

Detergent gets another stain on its reputation

By Roderick Oram, Consumer Industries Editor

Persil Power, Unilever's controversial detergent sold as Omo Power on the Continent, is no better overall at removing stains from clothes than soap powders such as Ariel Ultra from its arch-rival Procter & Gamble, the British Consumers' Association said yesterday.

Three weeks ago, the Dutch consumers' association also concluded that Omo Power, was only as good as other detergents. Moreover, the damage it caused clothes was "more than comparable powders".

Unilever has rejected both associations' reports, saying the two organisations are unqualified to undertake such complex investigations. "Tests by independent research laboratories show Persil Power is superior," a company spokesman said yesterday.

Unilever has heavily promoted the detergent as the biggest breakthrough in a generation in cleaning power. The product has attracted considerable controversy, however, because of allegations that its patented manganese catalyst, the "Accelerator", can damage clothes under certain conditions.

Shortly after launching Persil and Omo Power this spring, Unilever reduced the volume of Accelerator in it. The British Consumers' Association tested the original version in June and the latest version last month and found no difference between them in cleaning power. "If you were worried that you were missing out on a revolution in stain-busting because of the controversy over Persil Power, then rest easy," said Ms Helen Parker, acting editor of Which?, the British association's magazine. "Our independent tests show that the stain-removing ability of new Persil Power is no better than that of some of its rival brands and own-brands."

The association said its long-awaited tests for potential damage by Persil Power to clothes will not be completed for several more months. Unilever gained support yesterday, however, from the Danish consumers' association. "There is no acute problem and we do not advise against Omo Power," the association was quoted as saying. "If the detergent damages the garments, it will be a long-term effect."

The association also said it did not know whether other detergents had the same long-term effects because "no other detergent has been tested as thoroughly as Omo Power".

Earlier this summer, Unilever commissioned six independent test institutes across Europe to investigate the detergent. CTTN-IREN of France, for example, concluded that Omo Power was superior to Ariel Ultra even using a dosage 21 per cent smaller.

Each negative report has hit Unilever's sales of the detergent, particularly in the Netherlands and UK, where press coverage has been heaviest. It maintains, though, that sales subsequently recover thanks to heavy advertising and promotion of the product and consumer satisfaction.

Kremlin impotent over large-scale managerial fraud

By John Lloyd and Dmitri Volkov in Moscow

The Russian government yesterday heard a detailed report on systematic theft of property by Russia's top managers – in the face of which senior ministers confessed their impotence. This "managerial looting" – now running at tens of trillions of roubles – is allegedly hugely increasing the load of debt owed to private and government enterprises.

Mr Sergei Belayev, the director of the Federal Bankruptcy Agency, told the committee on inter-enterprise debt chaired by Mr Oleg Soskovets, the first deputy prime minister, that corrupt contracts had meant the delivery of materials for which no money was officially paid for months or even years – though it could be assumed that money changed hands unofficially. Meanwhile, the cost of the products appeared on the company books as debt, and the managers appealed to the government for subsidies and delayed paying their workers wages.

Mr Belayev, whose agency investigates the ability of Russian enterprises to pay their bills and who has compiled a dossier on the activities of Russia's companies, said "this is typical of much of Russian industry and is doing large-scale damage to the Russian economy. They [the managers] are exporting the working capital of the country."

Mr Soskovets said he would recommend a presidential decree controlling the actions of enterprise managers and establishing permanent financial control over the larger debtors. However, Mr Gennady Melikyan, the labour minister, said the managers most at fault "are probably too smart to be caught" and that "it is clear they are getting fat on this, but what can we do?"

Mr Belayev used the instance of the Norsi oil refinery in Nizhny Novgorod as an example of management actions. The refinery had been declared unable to pay its debts of more than Rbs1,000bn ($800,000) – but in fact, said Mr Belayev, it had substantial assets and earning power.

In association with the "Roman Invest" trading company in St Petersburg, the refinery had shipped a significant part of its output without any payment at all for a year. Inflation had reduced the value of the money eventually received. In the course of 1993, the value of products involved was Rbs12bn.

When officials from Rosneft, the Russian oil holding company, attempted to collect its 38 per cent of shares in Norsi in order to exercise control over its operations, they were barred from entering the plant. Ministers at the meeting said that Rosneft's acquiescence in this prohibition represented a "complete abdication or responsibility".

Mr Vladimir Gusev, head of the state taxation service, said "everyone has known about this for a long time".

Crime bosses running Vladivostok, says report

By John Lloyd in Moscow

The Russian far eastern region of Primorye and its capital of Vladivostok, potentially among the richest areas of the country, are now under the control of a "criminal clique" who defy federal laws, suppress both opposition and independent media and have enriched themselves corruptly. These claims are made in a report by Russia's main liberal party, Russia's Choice.

The report by a group of experts caused the country's four main liberal parties – Russia's Choice, Yabloko, Party for Russian Unity and Accord and the Liberal Democratic Union – to appeal to President Boris Yeltsin to delay the gubernatorial elections in the region, scheduled for tomorrow.

They said that Mr Yevgeny Nazdratenko, the present governor, had rigged the elections for his victory and that any voting would be farcical.

Mr Yeltsin issued a decree last week banning all gubernatorial elections throughout the country – a move aimed, according to his own staff, at stopping Mr Nazdratenko.

The Primoye governor at first said he would defy the decree, arguing that elections had been called before the decree had been promulgated, and then yesterday backed down and agreed to postpone tomorrow's vote.

The report, a copy of which has been obtained by the Financial Times, is a catalogue of corruption, rule by fear and flagrant abuse of the law – though much of the testimony is given by the governor's political opponents and he has refused to comment on it.

The authors of the report say that Mr Nazdratenko has:

- dismissed, harassed and even imprisoned many of his opponents;
- closed down most independent press and the independent television station;
- created a company with a group of business leaders, which in turn own substantial stakes in more than 200 privatised enterprises in Primorye region;
- ignored the Russian constitution, federal laws and direct instructions from the government – including one to reopen the television station.

Authors spell out catalogue of corruption, rule by fear and flagrant abuse of the law

The report says that "most of all, we were struck by a general atmosphere of fear, recalling the bygone days of our totalitarian past". It quotes the judgment of one of the last remaining independent papers that the senior administrators are "running the region while increasingly strengthening a lawless, violent, corrupt and unpunished regime, with the toleration and the silence of Moscow".

Among those prepared to speak to the Russia's Choice experts who wrote the report were Mr V Butov, former presidential representative in Primorye. He alleges that he was sacked from his post when he tried to bring the corruption and the violence in the region to the attention of the Russian administration.

Mr V Cherepkov, a former mayor of Vladivostok, said he was beaten up by local security forces and dismissed by Mr Nazdratenko on falsified bribery charges.

Mr Ivan Ustinov, a member of the state duma (lower house) for the region, told the experts that a "huge campaign of discrimination and discrediting" had been mounted against him by Mr Nazdratenko – including a false accusation of building seven dachas for rent outside Moscow with state money and the publication of false testimony of his illegal activities as head of the Nakhodka Free Economic Zone.

Mr T Romanenko, leader of the Russia's Choice organisation in the region, said the governor obliquely threatened his daughter after he had published articles critical of him.

The charges and counter-charges in part reflect the particularly chaotic nature of growth in Vladivostok and the surrounding areas – where Moscow's laws are far away and where trade, criminality and self-enrichment have grown steeply in the past two years.

Journalists appear to have been particularly badly affected. According to the report, 12 have petitioned for exit visas to the US, claiming the status of political refugees.

Zhirinovsky: no time for democratic process

Zhirinovsky's praise for North Korea a snub to Russian parliament

Yeltsin faces two-pronged attack

By John Lloyd

Mr Vladimir Zhirinovsky, leader of the ultra-nationalist Liberal Democratic party which won a large following in the Russian parliament in the last elections, has said North Korea has "a distinguished leader, an excellent society and a great history ... its excellent style of politics has brought it great success", according to the official Korean news agency.

Mr Zhirinovsky's visit to North Korea, now shunned by Russian leaders, coincides with the opening of the Russian parliament, and symbolises the nationalist leader's contempt both for the democratic process in Russia and for parliament itself.

His party has threatened to walk out of the parliament, and to back – although not initiate – a vote of no-confidence in the Russian leadership.

His star has waned as well as waxed since his success last December in the parliamentary polls. But he has remained able to command attention, and is now supporting the candidacy of Mr Sergei Mavrodi, controversial (and jailed) head of the MMM share dealing company, as a candidate for the constituency of Mytishi, an industrial suburb of Moscow.

The previous deputy was killed there, in what was described as a gangland feud.

The opening of the parliament was also marked by a direct accusation by Mr Victor Ilyukhin, the communist deputy who chairs the state duma's security committee, that Mr Boris Yeltsin "has been suffering from alcoholism for a long time and cannot run the country."

He said it was "our anguish" and "the peak of shame for Russia" to watch the Russian president's recent conduct abroad. Mr Ilyukhin was referring to Mr Yeltsin's public indisposition during a visit to Germany last month, and his inability to descend from his aircraft to meet Mr Albert Reynolds, the Irish Prime Minister, while en route back from the US last week. Mr Oleg Soskovets, the first deputy premier who met Mr Reynolds, said the Russian president was ill – while Mr Yeltsin later said he had overslept. "The security service did not let in the people to wake me. Of course, I will sort things out and punish them," he said then.

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EUROPEAN NEWS DIGEST

France increases space budget

France is sharply increasing spending on military spy satellites next year both as an example for its European partners to emulate and as a fall-back if they do not.

France's planned 23.4 per cent increase in space expenditure to FFr5bn (£600m) next year, chiefly on the Helios I and II reconnaissance satellite programmes, is the most striking change of direction in the government's 1995 draft defence budget detailed yesterday by Mr Francois Léotard, the defence minister. Out of a proclaimed desire to free France and Europe of dependence on US intelligence satellites as well as on military transport aircraft, the prime minister, Mr Edouard Balladur, last month urged fellow Europeans to join France in developing "a true European space observation system", saying that he was counting particularly on German support. Regardless of this project, however, Mr Balladur forecast France would spend enough on the Helios programme, carried out in co-operation with Italy and Spain, to give it a spy satellite system of its own. Mr Léotard said yesterday this would come as early as next spring with the launch of the first Helios I satellite.

The minister claimed that France and Greece were the only Nato countries raising their defence spending. In fact, the 1.5 per cent nominal increase in overall French military spending to FFr202.3bn (£24.3bn) next year is less than expected inflation of 1.7 per cent. But expenditure on equipment is to rise by 2 per cent to FFr102.4bn, constituting the slight increase in real terms to which the Balladur government is committed. *David Buchan, Paris.*

French MPs may face audits

France's ministers, MPs and leading local politicians should be submitted to an annual audit of their personal financial assets, designed to screen them for possible corruption, the prime minister, Mr Edouard Balladur, said yesterday.

Bowing to increasing public and political pressure for action to stem the rising tide of corruption allegations, Mr Balladur proposed that the National Assembly set up a system by the end of this year whereby a panel of senior magistrates would examine politicians' assets and refer any "presumed irregularities" to prosecutors. Pressure on the Gaullist RPR prime minister increased with this week's opening of a judicial investigation into allegations that the Republican party, a coalition partner in the government, has illegally received corporate funds in the past. A communist MP yesterday accused Mr Balladur of "covering with his protecting wing three members of the government", a reference to its trio of Republican ministers. Of this trio, Mr Gérard Longuet, the trade and industry minister, is the most likely to resign due to the sort of allegations about personal financial and real estate assets that Mr Balladur's audit plan is aimed at allaying. *David Buchan*

Greece moves on telecom sale

Greece's Socialist government has proposed legislation clearing the way for the partial privatisation of OTE, the state telecoms monopoly, by the end of the year. The government hopes to raise some Dr350bn (£91.7bn) through floating 25 per cent of the company on the Athens stock exchange. Some 7 per cent will be offered to local investors, while the remaining 18 per cent is to be sold to institutional investors abroad. The new law, expected to be approved by parliament this month, restructures the company as a public corporation and provides for sharp increases in domestic tariffs over the next three years, aimed at boosting OTE's revenues by Dr100bn yearly. But management will remain under government control, with six out of 11 board members being appointed by the state. The law does not make any provision for appointing an international telecom operator as a technical consultant. Local analysts described the legislation as a compromise designed to appease OTE's unions, which are opposed to the flotation. But they said the appointment of a technical adviser is seen as crucial to the flotation's success. *Kerin Hope, Athens.*

Swiss set for steady growth

Switzerland's gross domestic product (GDP) is expected to rise 1.5 per cent in 1994 and growth is forecast to accelerate to 2.5 per cent in 1995, the Swiss Federal Institute of Technology's centre for economic research said. The centre forecast growth for 1996 of 2.7 per cent. The Swiss economy started to recover in the third quarter of 1993, with demand for exports and private consumption picking up appreciably. The report also forecast that consumer prices, which rose an average of 3.3 per cent in 1993, will increase 0.9 per cent in 1994, but jump to 2.7 per cent in 1995, because of the introduction of a value-added tax on January 1. The report estimated that VAT would add about 1.3 per cent to the consumer price index in 1995. On the unemployment front, however, the report forecast only a gradual decline in the country's jobless rate. It said unemployment, which is will rise to 4.7 per cent in 1994 from 4.5 per cent in 1993, will ease to 4.2 per cent in 1995 and 3.6 per cent in 1996. "However, the number of unemployed persons reported in the statistics is likely to decrease quite substantially, since the figure will exclude those who have reached the end of their entitlements to unemployment benefit, those who delay beginning gainful employment and those taking early retirement," the report added. *AP-DJ, Zürich*

Azeri president accuses Russia

President Gaidar Aliyev, Azerbaijan's president, yesterday angrily accused Russia of trying to destabilise the country after claiming he had successfully crushed a revolt in Azerbaijan's second-largest city, Gence. President Aliyev, a former member of the politburo of the Soviet Union, declared a state of emergency on Monday following unrest in the country. Azerbaijan's prime minister, Mr Suret Huseinov, denied suggestions he had been involved in the coup and declared his support for President Aliyev. Tensions have risen between Russia and Azerbaijan following a dispute over oil rights in the Caspian Sea. Russia refused to recognise a $7bn (£4.4bn) oil deal Azerbaijan concluded with a western consortium and a Russian foreign ministry spokesman yesterday denied the allegations and said Azerbaijan was trying to tamper with Soviet-Iranian border agreements. "Russia considers this inadmissible and comes out against unilateral attempts by Baku to spread its jurisdiction over certain sections of the Caspian Sea," the spokesman said. *John Thornhill, Moscow*

Austrian letter bomb campaign

The discovery of three letter bombs in Austria this week has sharpened tensions in the country over immigration only four days before a national election. None of the packages, delivered to a Slovenian publisher in Klagenfurt, a foreigners' advice centre and a paper factory in Tyrol, exploded. Mr Franz Löschnak, the interior minister, said the bombs were similar to those sent last December to prominent figures associated with refugee and immigration issues. Mr Helmut Zilk, the mayor of Vienna, lost a thumb and two fingers when one exploded in his hands. A police bomb-squad expert lost both hands in August when a pipe-bomb placed next to a bilingual Austrian-Slovenian school in Klagenfurt exploded while he was examining it. Neo-Nazi activists were believed to be behind last December's bombs, and one of this week's bombs carried the name of Graff Rüdiger von Stahremberg, a 17th century military leader who repulsed the Turks and is a hero to far right wingers in Austria today. *Ian Rodger*

Lufthansa joins Rushdie curbs

Lufthansa, the German airline, has refused to carry British author Salman Rushdie because it considered him a security risk, the Tageszeitung newspaper reported yesterday. British Airways has a standing ban on carrying Rushdie as a passenger for security reasons. Alleged blasphemy in his book, *The Satanic Verses*, led to the Iranian death threat. The Tageszeitung said the airline refused to carry Rushdie when the author visited Germany in August last year and in October 1993. *Reuter, Bonn*

Rock's leader questions British motives

By Tom Burns in Madrid

Mr Joe Bossano, the pugnacious chief minister of the British crown colony of Gibraltar, believes that London, either by neglect or through fear of upsetting the Madrid government, is undermining his attempts to achieve self-sufficiency for the Rock by transforming it into an offshore finance centre.

In an interview with the Financial Times, the Gibraltar Socialist Labour party leader, who in 1992 was overwhelmingly re-elected to power by the colony's 31,000 inhabitants, said the UK was failing in its duty responsibly to handle the colony's external affairs. He also accused the UK Foreign Office of "bad faith" for suggesting that he had been reprimanded by the foreign secretary, Mr Douglas Hurd, at a meeting in London last month.

"I think (the UK) is hampering us. It could be a long-term strategy to make Gibraltar look to Spain for its future," Mr Bossano said. "There is no absolute proof of this but the circumstantial evidence makes it difficult to believe that there could be such a level of incompetence over the decisions that are concerning us."

Mr Bossano's tough talk is in character with his single-minded promotion of self-determination for the Gibraltarians – an option that has been ruled out by the UK as well as by Spain, which demands Gibraltar's decolonisation and its return.

His bluntness could also complicate bilateral talks between Spain and the UK that were set up in 1987 to discuss the future of Gibraltar. Spanish diplomats believe that Britain is failing to exert "effective tutelage" over Gibraltar. "We are coming round to thinking that London cannot deliver anything on Gibraltar," said one diplomat who questioned the usefulness of the negotiations. Spain is

Bossano: accuses the UK

viewed as holding the key to Gibraltar's ability to emerge from a damaging recession but Mr Bossano says that relations with Madrid are "in a cul-de-sac".

However, reversing his previous total opposition to talks with Spain, Mr Bossano said: "I am prepared to negotiate directly with Spain, although constitutionally I cannot do it unless I have London's sanction."

In August tensions with Britain came to a head when the colony's attorney-general, who is appointed by London and advises the Gibraltar government, resigned 11 months before completing his three-year term in office, citing differences of opinion between himself and the colony's governor.

The UK, which answers for Gibraltar in the European Union, is understood to be concerned about the implementation of Brussels directives on the Rock, particularly those concerning the finance sector, and it is increasingly worried over Madrid's complaints that the colony, at the southern tip of Spain, has added drug smuggling to its traditional tobacco smuggling activities.

The chief minister centres his criticism on the UK's insistence on stepping up its regulatory powers over Gibraltar's financial sector and thereby, in his view, effectively preventing the colony from developing tax efficient services for the EU, similar to those in Luxembourg.

He wants Gibraltar, for example, to set its own rules on the independent auditing of the 35,000 companies registered on the Rock in order to maintain the secrecy of asset-holding companies owned by individuals. Should London insist on comprehensive auditing, he said, "I might finish up with no companies to audit because they will have all gone somewhere else in the Union, to our competition such as Luxembourg".

Yugoslav economy in the balance

James Whittington assesses the war legacy and the pressures as sanctions are eased

There cannot be many places in the world where a central bank governor is hailed as a national folk hero. But in Serbia and Montenegro, the two remaining constituents of Yugoslavia, the septuagenarian governor of the National Bank of Yugoslavia, Mr Dragoslav Abramovic, is viewed as the nation's economic saviour.

A former employee of the World Bank and the International Monetary Fund, Mr Abramovic is credited with reversing the economic collapse of rump Yugoslavia caused by international sanctions and the war in Bosnia. On January 21 he introduced an economic stabilisation programme based on a new currency, the super-dinar, which was pegged at parity with the D-Mark and backed by hard currency and gold reserves.

The results, eight months on, have confounded his critics and exceeded all expectations. Inflation was brought down from a dizzy 313m per cent in January to -0.8 per cent in March. Last month it stood at 0.2 per cent, according to the Belgrade Institute of Economic Sciences. Industrial production is on the increase, wages are rising, and shops have been surprisingly full in spite of an economic embargo imposed by the international community 28 months ago as punishment for fuelling the war in Bosnia.

The psychological effect of the affable governor who relentlessly seeks to explain and convince the population of his programme has been immense. The lifting of some sanctions yesterday in the fields of sports and culture, and the re-opening of the international airport in Belgrade, will be a further boost.

But cracks are appearing and there are signs that what the Serbian press has dubbed "the economic miracle" might be crumbling.

The re-appearance of black market money-changers trying to meet an insatiable demand for D-Marks has signalled a weakening of the dinar. A black market rate of 1.2 dinars to the D-Mark last week had risen to DM1.4 yesterday. One money-changer in Belgrade explained that the demand for D-Marks comes from widespread smuggling and sanctions-busting operations.

"People need hard currency to trade outside and buy petrol and demand is very high, especially from (Serb-held) Bosnia," he says. "Until now supply simply met demand but as people are getting rich from smuggling they want more." As the black market premium widens, people are switching to D-Marks for fear of a repeat of the hyper-inflation of last year.

Moreover, shop prices are showing inflationary pressures. In the past week there have been shortages of milk, meat, and cooking oil as shopkeepers have removed their stocks rather than raise their prices. And the price of smuggled petrol is also rising.

Mr Jurij Bajec, from the Belgrade Economic Institute, believes that the central bank must quickly intervene to defend the dinar while maintaining a tight hold on monetary and fiscal expansion. He says that at the beginning of the economic programme the money supply was increased slowly in tandem with the growth in foreign exchange reserves, but by mid-year it began moving ahead.

"The money supply has reached a critical point of YD2.1bn of which around 50 per cent is in cash, which is enormous. If it exceeds this then inflation will return which will be beyond control," he says.

Foreign exchange reserves, which are supposed to be a national secret, stand at around DM500m, which leaves little room for manoeuvre.

Mr Abramovic dismisses these fears of inflation. "There's no need to question the fate of the dinar because nothing negative has happened so far in the economy," he says. He points out that average monthly wages have risen from DM30 in January to DM200 in September, while the industrial production index in August was up 70 per cent over January.

Instead of maintaining tight fiscal and monetary policies he wants to expand credit and increase investment to maintain the rise in output. This year gross national product of about $10bn is forecast to grow by 8 per cent, after contracting by 30 per cent in 1993.

"I don't believe in a credit inflation," he says. "The private sector is flourishing and our enterprises need more, not less, money."

Where this is to come from is not clear. The domestic banks are in so much trouble that they can only afford withdrawals of DM30 a month on even healthy current accounts. Those that can extend credit prefer to finance the lucrative grey market, or shadow economy, which, according to some economists, makes up about a third of GNP.

The Belgrade stockmarket is all but defunct apart from trade in short-term promissory notes. And the government has no access to international capital markets or its foreign bank accounts because of sanctions.

Mr Radoje Djukic, the minister for private enterprise, says the government is in the process of restructuring the tax system to suit the new economic conditions.

Taxes on corporate profits have already been abandoned in an attempt to encourage the grey market into the registered private sector. The government is also planning to pay all businesses a one-off subsidy of DM1,200 per employee for investment. Whether it can afford this, along with the extra costs of sanctions, is questionable.

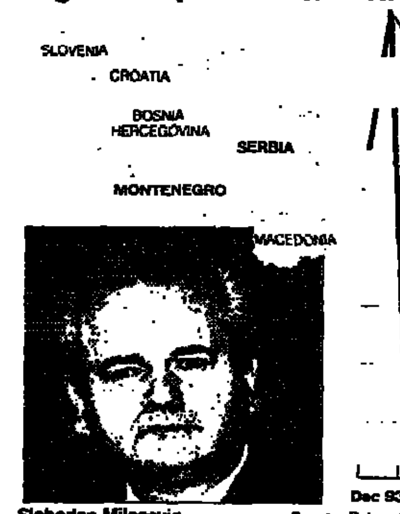
Budget figures are complicated by cross-transactions between the three different budget structures – federal, Serbian, and Montenegran – but the central bank says that the overall deficit is less than 7 per cent of GNP.

Most of the ifs and buts surrounding the economic programme come back to psychology. If Mr Abramovic can continue to persuade the Serbs that they have never had it so good under the sanctions, all will be well.

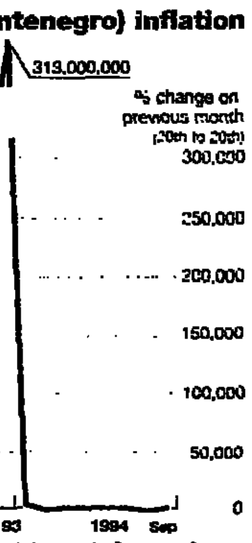
"We Serbs are survivors," says Mr Djukic who actively encourages sanctions busting by local businessmen and has himself built a modern DM4.5m textiles factory, complete with Italian furnishings, over the past two years.

Until sanctions are lifted, however, the unnatural distortions in the economy, including the miraculous fixed exchange rate, are likely to cause more pain that even the central bank governor may be unable to ease.

Yugoslavia (Serbia and Montenegro) inflation



Slobodan Milosevic



Source: Belgrade Institute for Economic Science

Nato ambassadors, irritated by the caution of the UN commanders in Bosnia, agreed yesterday to appeal above their heads to Mr Boutros Boutros Ghali, the UN secretary-general, for a tougher approach to policing the Bosnian skies, write Bruce Clark and Frances Williams.

The ambassadors, meeting in Brussels, resolved to write to Mr Boutros Ghali with a list of proposals for faster and more effective air strikes in response to Bosnian Serb provocations. They will call on him to accept the principle of air strikes without warning, and against multiple targets.

Under the new proposals, UN commanders would retain their ultimate veto over air raids, but there would be an agreed set of procedures for responding swiftly to provocations and a "presumption" that they would be followed. Diplomats said Canada was the only Nato country with reservations about this.

Differences between the UN and Nato over air tactics in Bosnia were left unbridged by a three-hour meeting on Monday between Mr William Perry, US defence secretary, and senior UN officials in Croatia. Relations deteriorated last weekend when a French Mirage was almost shot down by an anti-aircraft missile over northern Bosnia. Nato proposed retaliating with air raids but UN commanders vetoed this, on the grounds that it was impossible to tell who had fired the missile.

In Geneva, Britain's Lord Owen called for an end to the bizarre forms of cross-border trade which stoke the Yugoslav war. French officials alleged recently that Croatian sources were supplying Serbia with oil in return for weapons.

Patten offers olive branch to China

By Louise Lucas in Hong Kong

Mr Chris Patten, the Hong Kong governor, yesterday offered a working-level role to members of Beijing's shadow *Hong Kong cabinet*, in a concession aimed at breaking the deadlock on the colony's transition to Chinese sovereignty.

The concession, outlined in a policy speech to the Legislative Council (LegCo), marks recognition of Beijing's Preliminary Working Committee, set up by China when Sino-British talks on Mr Patten's democratic reform programme broke down in acrimony last year.

Until now, the government has been wary of the PWC, which some say could erode the authority of the colonial government, and contacts between the body and Hong Kong civil servants have been limited.

Now, PWC members have been invited to share in expert-level talks of the Joint Liaison Group (JLG), the official channel for transitional issues, in a bid to speed negotiations. The JLG's work has decelerated sharply since agreement was *reached on the transfer of military* land last June.

Two big infrastructure projects, a new airport and extension of the port, have already fallen victim to JLG inertia, while local enactment of laws, rights of residency and air services agreements are among the issues remaining on the agenda.

Mr Patten said: "What's of primary concern to us, without being ideological about our relations with the PWC, is how we can give more impetus to the JLG and how, in due course, we can co-operate with the Preparatory Committee [to be established in 1996] and the Chief Executive-designate."

Mr Patten's gesture, however, was shot down by Beijing even before he stood up to speak, with the official Xinhua news agency saying Britain lacked sincerity when it spoke of a desire to improve co-operation and questioning the validity of involving the PWC.

Governor Chris Patten is handed his policy speech after passing HK Chinese protesting at his olive branch offer to China *Reuter*

Mr Patten said he was surprised by Beijing's statement: "I thought that's what the PWC is supposed to do," he said. He further added that Hong Kong people would be puzzled if Beijing failed to provide a positive response to his speech over the coming weeks, saying he was hoping for the best.

News of a softer stance on the PWC had already been carried to Mr Qian Qichen, China's foreign minister, by Mr Douglas Hurd, Britain's foreign secretary, when the two met in New York last week.

In his speech yesterday, Mr Patten *said*: "We have indicated to the Chinese side our willingness to explore further with them whether there are *informal* ways in which *this* can be achieved, perhaps by expanding the pool of expertise on which the JLG can draw. Members of the PWC for example may be able to contribute to this process. We would welcome that."

In a further attempt to speed the "snail's pace" of the JLG work, Mr Patten outlined a raft of issues on which Hong Kong would provide practical aid to the incoming government and related bodies ahead of the transition. These matters span the layers of future government, defence (under the People's Liberation Army after the handover), HK$120bn (£10bn)-worth of fiscal reserves plus Exchange Fund assets, infrastructure and the 1997 budget.

Nigerian presidency 'should be alternated'

By Paul Adams and Reuter in Lagos

Nigeria's constitutional conference yesterday agreed that the national presidency should alternate between the north and south, an issue at the heart of the country's prolonged crisis.

The decision, which must be approved by the ruling junta, followed heated argument over power-sharing.

The agreement was a compromise between delegates from the minority tribes in the south-east that future presidents *should come in turn from each of* six regions of Nigeria, a plan known as "zoning", and the northern block of delegates who opposed the idea.

Northerners, often generals, have ruled Nigeria for most of the time since independence from Britain in 1960.

A political crisis ensued after Mr Moshood Abiola, a business tycoon from the south-west, apparently won a presidential election in June 1993 which the general then in power annulled.

General Sani Abacha, the present ruler, seized power last November and has touted the conference as a first step towards restoring democracy. Mr Abiola is on trial for treason.

Justice Adolphus Karibi-Whyte, chairman of the conference, ruled yesterday that the proposal should be enshrined in the constitution.

But the conference set up by Gen Abacha in *late* June has no power to re-write the constitution, merely to recommend amendments after debating the main issues.

Observers regard the principle of zoning as unworkable. For most of the past three decades the presidency has been zoned to the Hausa-Fulanis in the north and when last year's presidential poll was won by a southerner, the election was annulled.

The present conference is the third *time since 1978 that the constitution* has been examined or re-written. During all but 10 of its 34 years since independence, Nigeria has been run by military regimes who have overruled the constitution at will.

Yesterday's agreement concludes the first contentious report on political framework; the other big issue is the allocation of state revenue.

The conference is expected to overrun its October 26 closing date, but is likely to be the nucleus of future political parties if they are made legal by Gen Abacha early next year.

Regional concerns are a delicate issue in the vast country, where more than *1m people died in the 1966-70 Biafra* secessionist war. About 47m people live in the mainly Moslem north, compared with 41m in the largely Christian south.

Indian minister faces scandal inquiry

By Stefan Wagstyl in New Delhi

India's criminal board of investigation (CBI) said yesterday it was continuing to investigate claims that a cabinet minister was involved in an Rs1.32bn (£26.7m) illegal financing scheme in a case arising from the 1992 Bombay securities market scandal.

Mr B Shankaranand, the health and welfare minister, is accused of having authorised the diversion of funds from the state-owned oil industry development board (OIDB) to the syndicate bank, a banking institution, so that it could be, illegally, invested in the stock market.

Mr *Shankaranand* was oil minister and OIDB chairman at the time of the alleged fund transfers in 1992. He denies any wrong-doing.

The scandal centred on the illegal transfer of funds from banks into the stock market in order to try to make speculative profits, which were shared out among the banks, stockbrokers and bank clients, including private companies and state-owned enterprises.

Details of OIDB's transactions were published in a report of a joint parliamentary committee into the scandal *last year. It* concluded Mr Shankaranand had violated prudential norms in his supervision of OIDB's financial investments. Mr Shankaranand's denials were included in a government report published in response to the parliamentary report.

Paul Taylor adds: More than half the banks implicated in the Bombay securities scandal have paid their fines, according to the Reserve Bank of India.

The Indian central bank, which earlier this week imposed new penalties on three more small banks, said 14 banks had so far paid the fines, which were imposed for alleged breaches of its rules on securities transactions.

In July the central bank imposed fines totalling Rs1.47bn on 20 commercial banks, including foreign banks, which were severely criticised in a parliamentary report into the scandal published in December and were held liable for the bulk – Rs1.24bn – of the fines.

Riyadh faces debt problem

Saudi Arabia is starting to *have some problems paying its* debts but its underlying creditworthiness is sound thanks to huge oil reserves, US Treasury *Secretary Lloyd Bentsen* said yesterday, Reuter repports from Jeddah.

"They've begun to have credit problems in meeting maturities on some indebtedness," Mr Bentsen said prior to a meeting with King Fahd. "It's obvious they have to do more tightening of the budget."

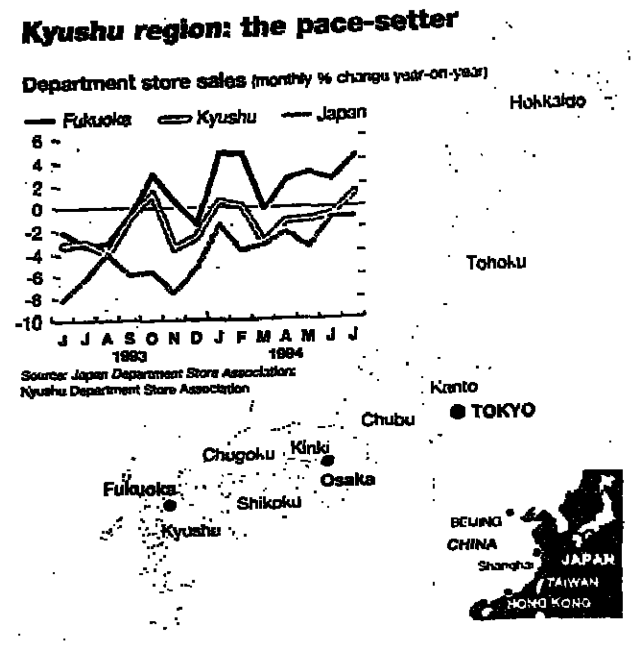
After building an enormously wealthy economy, the world's largest oil exporter is facing a cash shortfall brought on by weak oil prices and $55bn in payments to help finance the 1990-91 Gulf war.

The government has borrowed $70bn-$80bn, almost all of it domestic, according to one local financial source. Riyadh earlier this year negotiated delays in payments and delivery of some US military equipment including fighter aircraft and tanks.

The country, which will pay the US government $3.3bn this year under those contracts, faces a payments bulge of $8bn *over the next two years on* those deals. The kingdom is up to date on payments on a $4.5bn loan it aranged from international banks in 1991.

Mr Bentsen, who arrived yesterday for a two-day visit, made clear that Riyadh's problems were only temporary and were similar to those faced by the US before the Clinton administration took action to reduce the US budget deficit.

In a speech to Saudi business and government leaders, *Mr Bentsen* urged Riyadh to modernise its economy by tightening its budget belt, opening up its markets, and giving private companies a bigger role. Saudi Arabia has targeted a nearly 20 per cent cut for this year. Mr Bentsen, who met finance minister Mohammad Ali Abal-Khail and oil minister Hisham Nazer *praised that action*.



A sunny spot in grey Japan

By Emiko Terazono in Tokyo

On the Japanese *Regional* Banking Association's latest regional banking "weather" map, which indicates the strength *of the local* economies, the only sunny area in the country was the southern island of Kyushu.

Although the recent spate of economic data has indicated that Japan is facing a lacklustre recovery, businesses in Kyushu are feeling more confident than their counterparts elsewhere in the country.

Part of the cheer stems from the minimal effects of the asset "bubble" of the late 1980s. Unlike the economies surrounding the larger cities such as Tokyo and Osaka, which have been hit by the plunge in real estate prices, Kyushu was relatively unaffected by speculative activity.

Confidence is also supported by Kyushu's provincial governments, striving to become the main crossroads for Japan and south-east Asia, which have *been pumping capital* into infrastructure projects in the region.

Sports facilities and hotels are being built for next year's Universiade games in Fukuoka city. Convention and shopping complexes are expected to be built before the Asia Development Bank's convention there in 1997.

Kyushu has been seeing the benefits of capital investment by leading manufacturers over the past few years. Nissan *Motor and Toyota Motor* both have plants, along with companies in the semiconductor industry such as Iwashita Engineering, and Mitsui High-Tech.

The main attraction for companies is cheap labour and land prices. Nissan's Zama plant on the outskirts of Tokyo is estimated to be worth Y240,000 (£1,558) a sq m, but Toyota reportedly paid Y16,000 to Y17,000 a sq m for its Kyushu plant.

Another is that "the proxim*ity to south-east Asia* is a leading advantage for companies moving into Kyushu", says Mr James Fiorillo, analyst at brokers *Baring Securities* in Tokyo. Mr Hiroshi Morimoto at the Kyushu Economic Research Centre adds that Kyushu will become an important back-up base for companies which have moved their manufacturing bases to Asia.

The increase in population as a result of the investments has supported consumption in *the region. July department* store sales in Kyushu were up 1.2 per cent on July of 1993, in spite of a 29-month consecutive decline for the nation.

The Fukuoka stock exchange, which expects new listings of about 10 companies this fiscal year to March, saw trading volume rise by 4.5 times in June from a year earlier, and 7 times in July.

Lending growth at Kyushu-based regional banks has been steady in spite of the first fall in loan growth on record experienced by the country's large commercial banks. Bank of Fukuoka, says outstanding lending rose 2.9 per cent in August to Y3,988bn.

The real test will come when the wave of investments recedes. Some bankers are already cautious. "We aren't sure if there will be enough *demand once the facilities* and hotels are finished," says Mr Toshihide Marutani, an official at the Bank of Fukuoka's economic research department.

Others believe the region's growth will be sustained as long as the rest of the country catches up.

Tokyo seeks big spending boost

By Michiyo Nakamoto in Tokyo

The Japanese government is planning significantly to increase public spending over the next 10 years in an effort to expand domestic demand and improve the nation's living standards.

Mr Kozo Igarashi, chief cabinet secretary, confirmed that the government was working on a new public spending programme which is expected to increase investment to about Y630,000bn (£4,100bn)over 10 years from 1995. The programme will replace the current one which began in 1991, for which Y430,000bn *has been* earmarked.

The beefed-up programme, expected to be put before the *cabinet tomorrow for approval*, follows Japan's pledge at the Group of Seven summit in Naples last July to review the existing spending programme with a view to further stimulating the domestic economy.

In addition to increased public spending, the programme will call for greater allocation of funds to the building of social infrastructure, to improve the country's living standards and prepare for an ageing society.

Increased housing, drainage, garbage treatment facilities and educational and social welfare are among *priority* candidates for increased investment. The plan is expected to call for greater investment in lifts in *public places and wider side*walks to accommodate wheelchairs.

The programme will also aim *to meet the changing needs of* a society in which information is expected to play an increasingly important role.

IFC investment first for South Africans

By Peter Norman, Economics Editor, in Madrid

The International Finance Corporation, a member of the World Bank Group, yesterday announced its first equity investments in South Africa as part of a strategy to encourage new businesses among the country's poor black population.

Mr Jemal-ud-din Kassum, IFC vice-president for operations, said that the investments – which will be made in a franchise financing fund and a life assurance company – would "help bridge the gap between the first and third world parts of the economy".

The IFC, which promotes private sector activity, will invest R12.5m (£2.4m) in the South Africa Franchise Capital Fund. This will be a R50m vehicle to provide loans and equity to members of "previously disadvantaged groups" so they can acquire franchises in businesses such as fast food, dry cleaning and photocopying chains.

The IFC will also invest R41.6m in a 10 per cent stake in African Life Assurance (Aflife), a life assurance company that does most of its business with poor blacks .

Christo Liebenberg

The franchise fund will help black businesses overcome shortages of capital and give them access to accounting and marketing expertise as well as the research and development facilities of larger organisations, Mr Tei Mante, director of IFC's sub-Saharan Africa department, said.

The life assurance company, which is being restructured to be predominantly owned by black interests, will provide a home for savings from people in the townships and provinces.

The two investments "are all part of building a climate that provides a stable base for economic growth", Mr Mante said. The Aflife restructuring, which will entail the building up of a new sales force to cover black residential areas, was an "example of the changes in ownership and control that are necessary for increased participation by previously disadvantaged groups in the formal economy."

IFC's partner in structuring and arranging the leasing fund was Nedcor Bank of South Africa.

Nedcor will take a 25 per cent stake in the fund. The rest of the shares will be placed with a small group of international and South African institutional investors.

In remarks to the annual meeting of the International Monetary Fund and World Bank, Mr Christo Liebenberg, the South African finance minister, said the Bank's multilateral investment guarantee agency would soon give its first guarantee for an inward investment into South Africa.

It is understood that this concerns an investment in the manufacturing sector.

Private sector needs more aid to finance infrastructure, writes Andrew Taylor

Why World Bank is shifting policy

The decision by the World Bank to increase sharply the financial guarantees it makes to commercial lenders recognises that private-sector investors need more help if they are to finance a growing proportion of the world's infrastructure.

Governments struggling to contain public spending are unable to meet all the demands from their populations for better transport, power, water and sewerage systems.

Private-sector lenders and investors, on the other hand, are reluctant to put money into emerging countries with little history of private-sector investment and where strong political risks may remain.Commercial banks lending to these countries demand higher interest rates and are reluctant to grant long-term loans.

Partial financial guarantees from the the World Bank would provide comfort to other lenders and allow schemes to proceed which otherwise might not have taken place, says Dr Ashoka Mody, principal financial economist at the bank's project finance group.

The Bank, which previously has lent mainly to state bodies would still be required under its articles to seek counter-guarantees from the government of the country in which the project was located.

In return, it would guarantee commercial lenders against the failure of state agenciesto meet contractual obligations.

These might include:

- Maintaining agreed tariff formulas and regulatory frameworks;
- Making available sufficient fuel, in the case of a power station;
- Meeting payment targets where these have been agreed with state and municipal authorities
- Providing compensation for delays caused by government actions or political events.

The Bank, however, would not cover commercial risks such as construction delays, inadequate costing or the failure of customers to purchase services in expected numbers.

Governments trying to contain spending are unable to meet all demands

"We want to use guarantees as a catalyst. By covering some of the risks that the commercial market is not able to bear or evaluate adequately, we hope to attract new sources of finance, reduce funding costs overall and extend the maturity of commercial loans," said Dr Mody.

The decision to increase the availability of financial guarantees to the private sector represents a marked shift in the bank's policy.

The Bank has total outstanding loans of $104bn (£69.3bn), mostly to government and government agencies, compared with financial guarantees to commercial lenders covering just $1bn of loans.

The Bank's size, credit rating, special relationships with governments and experience in negotiating counter-guarantees means it is better suited to support large-scale projects than the International Finance Corporation, the World Bank's commercial lending arm, and the Multilateral Investment Guarantee Agency which deals in areas considered politically risky.

The IFC and MIGA, which traditionally have provided smaller loans, guarantees and credit insurance to the private sector will continue these operations but the Bank is expected to take the lead role on big privately-financed projects.

Dr Mody, speaking in London at a Financial Times conference on infrastructure investments, said financial guarantees had already helped a small number of infrastructure projects raise private capital more cheaply.

A partial credit guarantee covering 22 per cent of the present value of a $120m loan from commercial banks and insurance companies had enabled Chinese authorities to extend the maturity of the loan from 5 to 15 years for the $1.08bn Yangzhou thermal power project.

Similar World Bank support for a $100m bond issue for the Leyte-Luzon geothermal project in the Philippines had extended the payment period from 10 to 15 years. The bank's support was equivalent to 36 per cent of the credit risk exposure at present values.

The fees for such deals typically are expected to be 0.25 per cent during the life of the guarantee.

This however would rise to between 0.4 and 1 per cent during the danger period when the guarantee might be triggered.

In the case of the China and Philippines power projects, the promoters were the state while the World Bank guarantees covered credit rather than contractual risk.

Lenders are chary of investing where strong political risks remain

In future, deals will be done directly with private lenders and promoters and cover both contractual and credit risk of state bodies defaulting on payments.

Developing countries are estimated to spend about $200bn on infrastructure investment, of which about 90 per cent comes from government sources.

The proportion paid for by private investors is forecast to rise sharply over the next few years and the World Bank expects to play an increasing role in assisting this market.

Economists go back to school

Jill Barshay and Chrystia Freeland on basic training in Kiev

When Ukraine first became an independent state, cabinet ministers were apt to telephone western journalists in a frantic search for an explanation of basic economic terms such as "balance of payments".

Just three years later, Kiev has a small but aggressive team of economists who last week negotiated a $360m (£240m) loan with the International Monetary Fund – Ukraine's first IMF deal – and hope to launch a coherent programme of market reforms this month.

A World Bank public education project being piloted in Ukraine has played a quiet but crucial role in the transformation of at least a small part of Kiev's parochial élite, trained only in obediently fulfilling the Kremlin's central plan, into leaders with a working knowledge of market economics.

For a year, Mr Daniel Kaufmann, the World Bank representative in Kiev, has been running weekly economic round-tables for journalists, politicians and civil servants, more formal seminars and workshops for government bureaucrats, and intense one-to-one economic training courses for key would-be reformers.

The most able ministers and civil servants in the Ukrainian government are alumni of this project. They remain outnumbered by anti-reformist Ukrainian leaders, who have begun to snipe at the IMF deal, but Mr Kaufmann claims to "convert" one or two members of Ukraine's communist-dominated parliament every week.

The project began when Mr Kaufmann realised that meetings between senior Ukrainian leaders and World Bank and International Monetary Fund delegations were "dialogues of the deaf" in which the Ukrainians solemnly nodded their heads but understood nothing.

That experience convinced Mr Kaufmann that before beginning standard development projects geared at bolstering market reforms, the World Bank – which, if Ukraine eventually negotiates a stand-by agreement with the IMF, could provide Kiev with a rehabilitation loan of up to $600m – needed to help Ukrainians learn what a market economy is.

"The conventional World Bank approach may have served us well in Latin America and much of Asia where the economic élite which really rules had a solid western education," Mr Kaufmann says. "But this is not the case in the former Soviet Union, eastern and Central Europe and much of Africa."

Mr Kaufmann also points out that because of the high general level of education, particularly in maths and the sciences, in the former Soviet Union and eastern Europe, public education in economics gives rapid results.

"The returns to relatively small, focused investment are enormous, extremely steep," Mr Kaufmann says. "This is not a 15- or 20-year proposition. The goal is to make ourselves irrelevant in two years."

Mr Kaufmann began the programme using funds from his office's operating budget and small sums of money contributed by western governments, but his initial success has won the admiration of Mr George Soros, an American financier and philanthropist, who announced last week he would like to finance a Ukrainian centre to co-ordinate public economic education.

As the World Bank assesses a half-century of operation, Mr Kaufmann hopes his project will become a model for a new approach in the bank, better suited, at least initially, to the regions in which the bank operates than the large infrastructure projects which have been its traditional mainstay.

"For Ukraine it's a matter of $400,000 to fund economic education," Mr Kaufmann says. "That's nothing. Imagine the impact."

Low mobility hits Russian jobless

By David Goodhart, Labour Editor

Regional unemployment levels in Russia, ranging between 1 and 11 per cent of the workforce, are likely to become entrenched because of low labour mobility, according to a World Bank report.

The report says the national unemployment rate is between 5 and 6 per cent, as opposed to the official rate of about 2 per cent, but finds the duration of unemployment is surprisingly short.

"Unlike in eastern Europe, where unemployment turnover is very small, Russian unemployment, at least as yet, cannot be characterised as a stagnant pool," the report written by Mr Simon Commander and Mr Ruslan Yemstov says.

In 1993, between 60 and 80 per cent of those leaving unemployment did so within four months.

In any quarter of 1993 roughly 5 per cent of the workforce made a job transition.

Big Russian companies have generally held on to their workers even when demand has slumped, but they have also been surprisingly persistent in hiring. Sackings remain responsible for only 25 per cent of job movement from companies, implying that a lot of people are switching jobs voluntarily.

There are, however, some growing problems of "mismatch" between supply and demand in the labour market. "In Moscow, for example, most posted vacancies are for manual and primarily male jobs; a significant share of the unemployed are educated women."

Commission plans will loosen carmakers' grip on dealers

John Griffiths explains the impact of changes to EU regulation of vehicle sales

Cars on sale in Essex, Britain: buyers will be disappointed by the Commission decision

The European Commission yesterday dismayed consumer groups and brought relief to car manufacturers by proposing yesterday that the motor industry keep its selective and exclusive distribution networks for another 10 years.

In a long-awaited draft regulation, the Commission cited the complex nature of cars and their safety implications as a major reason for continuing to exempt car manufacturers and their dealers from normal EU competition rules governing the sale of goods.

After a fierce internal fight between the competition and industry directorates, the Commission plans to renew, with some alterations, the so-called block exemption first granted to the European motor industry for 10 years in 1985.

The current exemption expires at the end of next June. There will be a discussion period of several months. But given the mass of evidence collected during preparation of the draft document, it is unlikely to change significantly by the time it is formally adopted by the Commission – early in the new year at latest.

The main changes compared with the previous exemption are intended to achieve several objectives. These include improving the functioning of the internal market, ensuring a balance between the interests of the parties concerned and encouraging manufacturer-dealer relations based on partnership.

In a statement likely further to irritate consumer groups, the Commission also acknowledged that a factor in retaining the exemption was that the existing distribution structure allows easy monitoring of Japanese vehicle movements - and thus helps Commission bureaucrats manage the EC-Japan "understanding" under which Japanese car imports to the EU are monitored during the transition to an open EU market for cars by 1999.

The main changes to the exemption affect the balance of power between manufacturers and their dealers, rather than consumers, although they hold out the prospect of considerably sharpening competition in the repairs and service aftermarket. The changes include:

- Allowing a dealer to distribute and sell more than one make of vehicle. This, however, is subject to conditions likely to be found far from satisfactory by consumer groups. There is no prospect of customers being able to compare, say, a Fiat Punto with a Ford Fiesta on the same showroom floor. The draft directive requires separate premises, even if on the same site, with separate management and "no possible confusion between the makes". Manufacturers will be able to terminate a dealer's contract if the dealer wishes to distribute other makes, but only if the termination is based on "objective criteria". Arbitration is to be available in the case of disputes.
- Allowing these multi-dealerships will help give dealers greater independence vis-a-vis manufacturers, claims the Commission. In some continental European markets such as France, where there are no large, multi-outlet dealer groups, this change could have considerable effect. However it will have relatively little impact in the UK, where most manufacturers have already begun to relax their opposition to multi-franchising and a number of multi-franchise sites - operating under the terms set out in the draft – have already appeared.
- The setting of sales targets only by mutual agreement between manufacturers and dealers: This represents a small but significant shift in the balance of power between manufacturers and dealers. Currently, manufacturers have the power effectively to impose sales targets. Frequently dealers have regarded such targets as unrealistic, and as placing them under excessive pressure to "move metal". Again there is provision for arbitration in the event of disputes, but the precise form of such arbitration last night remained unclear.
- Allowing dealers to obtain spare parts other than those of the manufacturer, provided they are of equivalent quality. There is an intensively competitive market for spare parts, with many independent suppliers undercutting original equipment prices. However, the provision requiring "equivalent quality" would appear to give manufacturers considerable leverage over dealers seeking alternative parts sources.
- Allowing independent garage owners access to the technical knowledge required for repairing vehicles: This measure should act as a benefit to consumers in stimulating after-sales competition. But manufacturers will hand over such information very reluctantly and there would appear to be considerable potential for foot-dragging.
- Freedom for dealers to advertise out of their own sales territories: In effect, the draft merely formalises a practice which is increasingly widespread, with big dealer groups already advertising in national publications.
- Extension of the minimum duration of agreements between manufacturers and dealers from four to five years and minimum notice of termination from one to two years;
- A ban on anti-competitive clauses in contracts, on pain of the manufacturer forfeiting its own exemption from competition rules.
- Banning practices designed to discourage consumers of one EU country buying a new car in another EU state, such as differences in the manufacturer's remuneration to dealers depending on the place of destination of the vehicle.

See Editorial Comment

China vows to defy US on Gatt entry terms

By Tony Walker and Martin Wolf in Beijing and Frances Williams in Geneva

China will not drop its demand that it be readmitted to the General Agreement on Tariffs and Trade as a developing country, in spite of US pressure for it to be classified as a developed nation, a senior Chinese official said yesterday.

Mr Li Lanqing, a vice premier responsible for trade, said it would be "ignorant and absurd" for China to be regarded as a developed country for the purposes of Gatt entry. "If we assume the duties of a developed country, why would we want to rejoin Gatt?" he asked.

His remarks reflect China's determination to preserve its developing country status in international institutions, thereby protecting benefits such as concessionary finance and other privileges.

Mr Li, who is a former minister of foreign trade, said China's growing status as a trading nation demanded that it become a founder member of the World Trade Organisation, the successor body to Gatt.

"We are now the world's 11th largest trader... Is it possible that the WTO would not include the 11th largest trading nation? Can it be representative otherwise?" he asked.

"If they don't let us rejoin the Gatt, China will manage... I just don't believe that the world can exclude China. It serves nobody's interests."

Beijing has reduced tariffs on many categories of imports, and has also dismantled a wide range of non-tariff barriers, but western nations led by the US are demanding further liberalisation of agricultural markets and progress in opening up the services sector.

Chinese officials complain frequently about "unreasonable" US demands, but negotiations are said to be making progress, although it is not clear whether they can be concluded in time for China to become a founder member of the WTO when it comes into being next year.

In Geneva, intensive negotiations between China and its trading partners are continuing in an effort to wrap up the terms of entry to Gatt and WTO later this year.

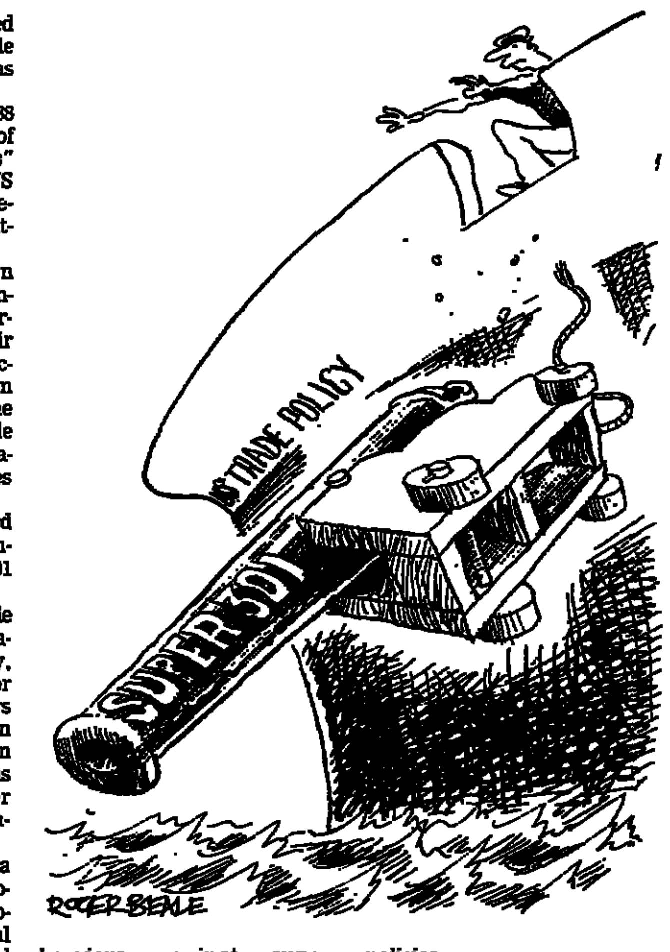
Trade officials say Gatt's working party on Chinese membership will meet as soon as there appears to be the basis of a consensus on the accession protocol and clear progress in parallel talks on improving access to the Chinese market for imports of goods and services.

Nearly 25 countries and the EU have been negotiating with China over the past month. However, the most critical talks are those with the US, which has taken the toughest stance in requiring Beijing to comply with Gatt/WTO rules from the outset.

China, a founder member, applied to rejoin Gatt in 1986 after pulling out in 1950 following the communist takeover. Membership negotiations began in 1987 but were repeatedly delayed by political and trade rows with Washington, most notably after the bloody suppression of the pro-democracy movement in 1989.

Not so Super 301 after all

Nancy Dunne on a once feared and loathed US trade weapon



Super 301, the most feared weapon in the US trade expansion armoury, was always a bit of a fraud.

It was written into the 1988 US Trade law at the behest of congressional "trade hawks" who felt that barriers to US exports were not being adequately addressed by multilateral rules.

The Super 301 provision required the US trade representative to make a list of "priority foreign countries" and their most protectionist trade practices. The USTR was then expected to negotiate away the offending trade practice while holding the threat of retaliation as a sword of Damocles over the offending country.

As it turned out, that sword never dropped on any country's head and the Super 301 provision expired in 1990.

A recent book on US trade laws, Reciprocity and Retaliation in US Trade Policy, released by the Institute for International Economics, says Super 301 was viewed as "an extension of US unilateralism in which the US set itself up as judge, jury and executioner without regard for international trade rules".

Trade hawks saw it as a means of addressing those Japanese trade barriers not subject to challenge in the General Agreement on Tariffs and Trade. It was not enough that the executive branch had all the authority it needed to retaliate against "unfair trade practices" under Section 301 of the act. They saw Super 301 as a bigger, more powerful weapon.

Mr Thomas Bayard, one of the IIE authors, says the difference between Super 301 and Section 301 was the attention the former generated. Both provisions gave the USTR a year to negotiate away trade barriers but sanctions at the end of the line were not mandatory.

Mrs Carla Hills, the former USTR, complained about the rigidity of Super 301 but used it reluctantly as "a tool" to open markets. In 1989, the first year of its existence, Taiwan and Korea rushed to the bargaining table to make deals to avoid being put on the Super 301 list. Japan was named for its trade barriers against supercomputers, satellites and wood products. To avoid embarrassing Japan by have it as the only country on the list, Brazil was added for its import licensing restrictions and India for its investment and insurance regimes.

The result, according to Mr Bayard's book, would have been at most \$1.6bn in increased annual exports, if the agreements had been fully implemented. But they were not. The satellite deal appears to be working, but the wood agreement awaits tariff cuts promised in the Uruguay Round and the Japanese government appears to be dictating individual purchases of US supercomputers.

India never agreed to talk under Super 301 and was never punished. Brazil changed its trade policies because a new government brought in new policies.

In his campaign to become US president in 1992, Mr Bill Clinton promised to resurrect Super 301. But once in office, his interagency trade policy team devised a more sophisticated strategy under which the US-Japan economic relationship would be organised.

All bilateral concerns would be brought under a broad negotiating "framework" which combined the elements of previous sectoral negotiations and the Bush Administration's initiative to root out Japan's "structural impediments" to trade. It would encompass macroeconomic measures to reduce Japan's multilateral trade surplus and indicators by which to measure success.

When Japan agreed to the new approach in June 1993, there seemed to be no need for a Super 301. But two Japanese prime ministers later – at a summit in Washington between prime minister Morihiro Hosokawa and President Clinton – the two sides fell out.

It was then the administration rediscovered Super 301.

Whether by design or by chance, Mr Mickey Kantor, the current USTR has used it skilfully to ratchet up the pressure on Japan for a deal under the framework. With Congress threatening to renew Super 301, he headed off new legislation by renewing the provision administratively, but in a milder form: instead of listing erring countries he would list trade practices which pose obstacles to trade. This was considered less insulting.

Instead of releasing a Super 301 list in April, Mr Kantor moved the deadline to September 30. This gave Japan nearly seven months to resolve its political problems and negotiate under the framework.

To add to the pressure on Japan, Congressman Richard Gephardt introduced new and tougher market opening legislation. Mr Kantor warned Japan publically that US-Japanese ties were "in serious disrepair".

When fear of trade war caused the dollar to tumble, and the yen to soar, Japan was ready to resume the framework talks. This time, the pressure of the newly designed Super 301 came into play, with September 30 as the deadline for a framework deal.

September 30 also became the final deadline for agreement on procurement and Mr Kantor warned that if no agreement was reached, the sanctions process would begin immediately.

With all the pressure in play, five deals were reached at the weekend under the framework. When the Super 301 list was released three days late on Monday, the Clinton administration declined to list even "priority" trade practices, saying they were all being negotiated in other arenas.

The "kinder, gentler" Super 301 will remain on the books – it is contained in the implimenting legislation for the Uruguay Round – but nothing forces an administration to use it.

World Trade Digest

Pakistan in \$7.5bn power deal

Hopewell Holdings International, the Hong Kong-based group run by Mr Gordon Wu, is today due to sign deals worth approximately \$7.5bn in Pakistan to build power plants. Mr Wu's Consolidated Electrical Power Asia may also secure contracts for transmission lines and oil supply facilities by the end of the year, officials say. Hopewell is to develop coalfields at Thar, in the southern province of Sind. *Farhan Bokhari, Islamabad.*

EU restores textiles duties

The European Commission is immediately reimposing import duties on textiles and clothes from India, Pakistan, Indonesia, Thailand and China. The Commission said the five countries had reached their individual export ceilings to the European Union under the generalised system of preferences scheme. The commission had suspended the levy of customs duties on the countries concerned on July 1. The duties apply to a range of goods including jerseys, mittens and socks. *Emma Tucker, Brussels.*

■ Swedish telecommunications giant Ericsson has agreed to supply MFS, the US communications company, with equipment worth more than \$300m over the next five years. The global purchasing accord will assist MFS's plans to expand its business service network from 32 to 75 cities, both in the US and outside. *Christopher Brown-Humes, Stockholm.*

■ Procter & Gamble yesterday settled a lawsuit against Milor over P&G's toothbrush design patent and product configuration rights. Milor is prohibited from making and selling such toothbrushes and is to pay P&G damages. *AP-DJ, Cincinnati.*

■ A consortium of Bouygues, Lyonnaise des Eaux unit-Dumez, the large French water and construction group, and Société Générale d'Entreprises has been selected to build a giant sports stadium in the northern suburbs of Paris. The stadium will be the main venue for the 1998 soccer World Cup. *Reuter, Paris.*

■ Vietnam has signed a \$10m contract with US-based Ellicott Machine Corporation International to buy two dredgers for harbour maintenance and port construction. *Reuter, Hanoi.*

Eastern Europe 'failing to attract investors'

By Andrew Taylor, Construction Correspondent

Progress in attracting private investment for infrastructure projects in eastern Europe has been painfully slow, Mr Thierry Baudon, deputy vice-president of the European Bank for Reconstruction and Development, said yesterday.

Mr Baudon, speaking in London at a Financial Times conference on international infrastructure finance, said the telecommunications industry had made most progress in attracting private capital.

There had been very little private investment in roads, power or water projects – other than a privately funded stretch of the M1/M15 motorway in Hungary linking Budapest with Vienna.

Mr Baudon said the failure of eastern and central European governments to develop adequate regulatory and tariff structures to cope with the privatisation of vital services had made it very difficult to attract commercial investors.

Private sector promoters needed to be reassured that they would be able to levy sufficient charges on users to repay loans and earn adequate returns on their investments.

The cost to the public of water and power had traditionally been very low in these countries and it would be difficult to increase these charges. Governments seeking to minimise costs would have to increase the proportion of their own state investment.

Private sector investors would have to be satisfied that tariffs and regulatory structures would not be changed in the future without adequate compensation, he said.

Poland was most advanced in developing a regulatory framework to cope with privatisation but much work still needed to be done to satisfy international investors.

Overmanning was another problem, Mr Baudon said, adding that he had not come across a single water treatment plant in eastern and central Europe which did not have twice as many employees as needed.

Potential investors would also have to be confident that there would be sufficient customers to pay for their services. This was proving difficult in areas like energy generation, when demand for power was falling in many of these countries.

A number of privately financed toll roads had been proposed in Hungary and elsewhere but these were likely to require a significant government contribution before they could proceed.

CORRECTION

Pacific Rim: sales and forecast sales of new motor vehicles (000s)

	Taiwan	Thailand	India	Indonesia	Philippines	Malaysia	Vietnam	Total
1990	484.0	302.7	357.7	274.5	132.7	165.9	1.8	1,719.3
1991	487.0	268.6	344.9	261.4	118.6	181.9	0.8	1,663.2
1992	547.1	363.0	330.3	169.5	146.1	145.1	6.0	1,707.1
1993	540.1	456.5	382.0	214.2	163.6	154.4	7.5	1,918.3
1994	574.0	435.0	405.2	277.5	172.0	175.0	9.7	2,048.4
1995	596.0	460.0	430.0	313.0	183.0	189.0	13.8	2,184.8
1996	604.0	490.0	460.0	353.0	190.0	209.0	18.8	2,324.8
1997	618.0	540.0	490.0	389.0	199.5	230.0	28.2	2,494.7
1998	632.0	585.0	530.0	430.0	210.0	243.0	36.2	2,666.2
1999	646.0	625.0	570.0	482.0	223.0	255.0	42.7	2,843.7
2000	660.0	665.0	610.0	540.0	236.0	266.0	51.5	3,028.5

Source: EIU- The Automotive Sector of the Pacific Rim and China

The above table shows sales of new motor vehicles in the Pacific Rim. The figures were incorrectly reported on page 8 of the World Car Industry survey published on October 4 1994.

Trade push pays off, says Brown

By Nancy Dunne in Washington

The Clinton administration yesterday said its aggressive year-old trade promotion strategy had helped US companies win contracts for 70 big foreign projects worth \$17bn.

"We can now say that the strategy is working and working with successful, measurable results," said Mr Ron Brown, the US commerce secretary, who heads the Trade Promotion Co-ordinating Committee which devised the strategy. He predicted that the US would exceed the goal it set a year ago to export \$1,000bn in goods and services annually by the year 2000.

Mr Robert Rubin, the president's economic adviser, said export promotion was an integral part of the administration's economic policy, which calls for increasing US productivity, opening markets through negotiation and helping US companies to win sales.

Mr Brown said the administration had "redefined the relationship between business and government", making government an active partner in the efforts of US companies to export. It had created a 17-agency Advocacy Co-ordinating network "to ensure co-operation across the government" and had established a "war room" in the Commerce Department to track over 160 important foreign projects. It had also launched high-level sales efforts by Mr Brown and other administration officials, including the president.

More effective use had been made of export financing and much progress had been achieved in eliminating unnecessary, ineffective export controls. Mr Kenneth Brody, chairman of the US Export Import Bank, said the agency was "no longer" passive in the face of strong competition from its foreign rivals. He has created a new project finance division, which this year has more than doubled the lending of 1993 to \$360m. The division is now pursuing a \$3.5bn backlog of requests for finance of infrastructure projects.

The bank's Tied Aid Capital Projects Fund is aggressively countering foreign offers to eliminate the use of foreign tied aid. In an annual report, submitted to Congress yesterday, the TPCC said that it would support the Middle East peace process through expanded trade missions, private sector initiatives and finance packages.

Pakistan in $7.5bn power deal

Chip research group to shun federal funding

By Louise Kehoe in San Francisco

Sematech, the US government-backed semiconductor industry research consortium, will pay its own way and no longer accept direct federal funding after fiscal 1996, it said in Washington yesterday.

Formed in 1987, when the US semiconductor industry was rapidly losing ground to the Japanese and falling behind in chip manufacturing technology, Sematech has for seven years received half of its funds, or about $90m (£57m) a year, from the Defence Department's Advanced Research Projects Agency. The rest is paid by member companies.

Leaders of the consortium, which includes 11 of the largest US chip makers, said a resurgence in their international competitiveness and the increased profitability of the industry, which last year regained world market leadership for the first time since 1985, meant Sematech no longer needs government support.

"It is a matter of principle," said Mr Craig Barrett, chief operating officer of Intel, the world's largest chip maker, and a member of the Sematech board of directors.

"The industry can now afford to support the consortium and we should. We are setting an example for other US industries and for the world."

"We never intended direct federal funding to become an entitlement programme," said Mr Bill Spencer, Sematech president and chief executive.

Ironically, the consortium is turning down government money at a time when it has the whole-hearted support of the Clinton administration – after years of battling political opponents to maintain funding from Presidents Reagan and Bush.

Sematech has long been at the centre of US debate over "industrial policy" with critics – mostly Republicans – charging that the government was "picking winners and losers". It has been supported by the Pentagon, however, amid concerns the US might lose its leadership in technology vital to national security.

The decision to reject further funding has met a mixture of praise, disbelief and suspicion from members of Congress, industry executives said. "We expected a pat on the back. Instead, we have been accused by some of rocking the boat."

Sematech's decision has confounded critics and supporters alike. To critics, it is a surprising demonstration that this is not just another industry group looking to sustain itself at the federal trough. Supporters, on the other hand, are concerned that without the incentive of money, Sematech may no longer be a "model" of government-industry collaboration.

However, Sematech officials stressed that they aimed to expand, rather than end, co-operation between the private and public sectors and that the consortium would compete for government research grants for specific project on the same basis as other groups and companies. Ultimately, this could mean that Sematech will receive more government funding than its current annual stipend.

Working through the congressionally mandated, but yet to be formed, Semiconductor Technology Council, an advisory group of government, industry and academic representatives, Sematech aims to influence a broader spectrum of government spending including Commerce Department and Energy Department research programmes, as well as the Pentagon.

Total federal government spending on semiconductor-related research has been running at about $2bn to $2.5bn in recent years, Sematech estimates. "If we can influence just 10 per cent of that so that it has commercial relevance we will be able to more than double the impact that we have had," said Mr Frank Squires, Sematech's chief administrative officer.

There is little possibility of the semiconductor industry reverting to its traditional "arms-length and sometimes adversarial relationship with the federal government", Mr Squires said.

Public attitudes in the US towards the government's role in ensuring economic security, employment and the creation of "quality" jobs have changed, he believes. "Perhaps Sematech has helped to bring about that change by demonstrating that not every government-industry partnership is larded with pork and bureaucracy."

Orders for US goods up 4.4%

By George Graham in Washington

New orders for US manufactured goods jumped 4.4 per cent to $286.5bn (£182bn) in August, the Commerce Department reported yesterday. The increase more than offset a 2 per cent drop the previous month, and is the sharpest monthly increase in nearly two years.

The rise included an unexpectedly steep increase in orders for non-durable goods, which rose by 2.5 per cent in August to $132.3bn. This was the 10th month in succession in which non-durable goods orders increased, with all leading industries except leather contributing to the rise.

Orders for durable goods rose by 6.1 per cent to $154.2bn, a fractionally bigger increase than the Commerce Department had announced in its advance durable goods report a week ago.

Coupled with the 0.6 per cent rise in the August index of leading economic indicators announced by the department on Tuesday, the rise added fuel to the financial markets' growing conviction that the Federal Reserve will have to raise interest rates sooner rather than later.

But some economists pointed out the factory orders data still relate to August, before any effect was likely from the Fed's last interest rates increase on August 16. More attention is likely to be paid to tomorrow's employment statistics, which will give the first substantial information on the economy's strength in September.

The Commerce Department said overall shipments of manufactured goods rose by 4.5 per cent in August to $287.9bn, after dropping by 1.1 per cent in July.

The backlog of unfilled orders dropped by 0.3 per cent to $447.2bn, cutting the ratio of orders to shipments to 2.89 – the lowest in 30 years. With inventories dropping by 0.1 per cent to $387.1bn, the ratio of inventories to shipments fell to 1.34, the lowest ever recorded.

Clean-up reform fails for this year

Congress abandons Superfund legislation

By George Graham

Congress leaders yesterday abandoned their efforts to reform the US's complex Superfund legislation on the clean-up of toxic waste sites.

With only three days to go before Congress breaks up for the election campaign, the obstacles in the way of Superfund reform this year – once expected to be a centrepiece of the Clinton administration's environmental programme – had become insurmountable.

Although a series of objections from industries affected by the legislation have been resolved over the year, the Superfund reform bill had yet to come to a vote in either chamber of Congress.

Some members claimed there was still a chance of winning both votes and then reconciling the Senate and House of Representatives versions, but this was generally regarded as wildly unrealistic.

The original 1980 Superfund law aimed to clean up toxic waste sites by requiring polluters to clean up dumps listed by the Environmental Protection Agency. But that law has turned into an administrative nightmare, with more time and money spent on lawsuits over who should be held responsible than on the actual clean-ups.

An attempt to overhaul the law in 1986 left many problems unresolved, and this year's reform effort by Ms Carol Browner, head of the EPA, has attracted the support of an unusual alliance of chemical companies, insurers, mayors, small businesses and some environmentalist groups.

"The bills before Congress would have greatly improved public involvement in clean-up decisions, cut litigation costs, brought consistency and transparency to clean-up decisions and retained the core principle of 'polluter pays'," said Mr William Roberts, legislative director of the Environmental Defence Fund.

The overhaul was still opposed, however, by reinsurers and a portion of the environmentalist community.

"This whole thing is about saving the money of the polluters, and that should be the last thing on anyone's mind," said Mr Rick Hind of Greenpeace, an environmental organisation which has opposed the bill.

Both supporters and opponents of the Superfund reform bill said the central role in killing the measure was the hostility of Senator Bob Dole, the leader of the Republican minority in the Senate.

Mr Dole has argued that any reform must remove one of Superfund's most controversial elements: the application of retroactive liability to anyone involved with a polluted site. But his principal motivation is widely believed to be his determination to deny the Clinton administration even the slightest legislative victory in the closing days of the congressional session.

Industry groups that might, in theory, have benefited from the changes Mr Dole sought had begged him in vain to let the bill go forward.

Other bills on the Clinton administration's environmental agenda, including tighter controls on mining and grazing on federal land and the transformation of the EPA into a full cabinet department have already fallen by the wayside.

But last-minute breakthroughs may still allow passage of a law reauthorising the Safe Drinking Water Act and of a measure setting aside around 7m acres of southern Californian desert as parkland and wilderness.

Determined Republicans halt work on Clinton agenda

Gingrich: architect of obstruction

By Jurek Martin in Washington

As the day dawned yesterday, there were three Republican filibusters holding up bills in the Senate, and more threatened. By mid-morning the opposition had scored in the House, forcing a delay of at least 24 hours of a floor vote on the Gatt treaty.

Across the legislative spectrum, measures that had once seemed certain of passage – often those which had already passed both chambers in different forms – were held in jeopardy by the Republican determination to block virtually every bill that could conceivably be interpreted as a success for President Bill Clinton and the Democratic party.

The rules of Congress allow different methods of obstruction to be freely deployed. In the 100-member Senate, this may take the form of the simple filibuster, which normally requires 60 votes to override but under some circumstances two-thirds of those present. This hurdle has often been too high for the Democrats, who have a 56-44 nominal majority but face not only Republican solidarity but also defections from their own ranks.

Senate rules also permit 30 hours for debate after a filibuster has been defeated. This has already been employed on both major and minor issues, such as nominations to federal office, thus squeezing the calendar even further before the scheduled adjournment at the end of this week.

The Gatt delay in the House was also the result of a parliamentary device, with Republicans demanding that the rule under which the trade treaty would be debated be changed so as to allow further investigation of one provision.

Specifically, Congressman Newt Gingrich, the Republican whip, is objecting to the so-called telecommunications "pioneer preference" clause in the bill covering fees to be paid by licensees of advanced cellular phone technology. This is part of the revenue-raising exercise required to offset any losses from lower tariffs.

Mr Gingrich, a clear leader of the conservative forces in Congress, has made much of the fact that the Washington Post Company, owner of the capital's liberal newspaper, is a large investor in this technology. A Post editorial yesterday flatly denied, however, that it was receiving favourable treatment.

Mr Gingrich is also the architect of Senate obstruction of the lobbying reform bill, now also held hostage in spite of the fact that it first passed the chamber by a 95-4 vote. United We Stand, the political organisation set up by Mr Ross Perot, the 1992 independent presidential candidate, has also demanded that the bill be passed.

Public disgust with Congress is such that failure to act may rebound on incumbents in the mid-term elections on November 8. But this suits the Republicans, since far more Democrats are up for re-election.

Mr Gingrich's artful argument is that the bill would circumscribe the constitutional right to petition the government – especially by religious groups, the most vocal and conservative of which are, of course, staunchly Republican.

The mood of Congress, matching that of the country, is now foul. Even one Republican, Senator John McCain of Arizona, observed: "Most Americans want us to get out of town – they think we have already done enough harm." One anonymous Democrat acidly said: "There is nothing the Republicans want – except our jobs."

Mexican plot allegations upset markets

By Damian Fraser in Mexico City

Reports of a widening conspiracy behind last week's assassination of Mr José Francisco Massieu, the number two official in Mexico's ruling party, rattled investors in Mexico's financial markets yesterday.

Interest rates on all but the shortest-term government paper rose sharply in the weekly auction. The stock market – also affected by weakness on Wall Street – was down 2.3 per cent at mid-session, with the peso weakening slightly against the dollar.

According to a report in a Mexican newspaper yesterday, Mexico's legendary former oil union boss, Mr Joaquín Hernández Galicia, known as "La Quina", was allegedly involved in the assassination. Mr Manuel Muñoz Rocha, the federal deputy who is to be charged with masterminding the murder, told authorities that La Quina provided people who took part in the planning of the assassination, according to Reforma newspaper. Mr Muñoz Rocha did not give any details of the former oil union bosses' alleged involvement, except to say that he did not finance the assassination.

La Quina controlled Mexico's powerful oil union until 1989, when he was arrested on the orders of President Carlos Salinas and imprisoned on a range of charges including storing arms. Like almost all the other figures allegedly implicated in the assassination plot, he comes from the north-eastern state of Tamaulipas.

Mr Ruiz Massieu was shot in the neck on Wednesday last week. The attorney-general's office has detained nine people allegedly involved in the crime.

According to testimony from one of the alleged accomplices that was released by the attorney-general's office, Mr Muñoz Rocha and Mr Abraham Rubio Canales, a former federal official with links to the Gulf drug cartel, plotted the assassination for a mixture of political and personal motives.

Mr Ignacio Pichardo, the head of the ruling Institutional Revolutionary party, has denied that Mr Ruiz Massieu's assassination reflects a wider fight for power between hardliners and reformists. But in a rare show of disunity, a PRI senator from the state of Guerrero accused Mr Pichardo on Tuesday of hiding the truth.

Canada social welfare reform plans tabled

By Robert Gibbens in Montreal

Canada's Liberal government yesterday issued a discussion paper on reforming the social safety net, aimed at getting all 10 provinces to help improve work skills and move the jobless away from reliance on unemployment insurance.

But Mr Lloyd Axworthy, minister of human resources, left his proposals vague and without cost estimates to try to head off a gathering storm of provincial opposition.

The government is committed to pruning the social welfare system by several billion dollars. It now accounts for nearly C$40bn (£18.8bn) a year of federal spending.

The proposals include limiting child tax credits to lower income families and redesigning unemployment insurance, a solely federal programme, to limit benefits.

Federal funding for university education would also be reformed, while retirement savings could be tapped to finance university education.

Caribbean troops arrive in Haiti

By Ted Bardacke in Port-au-Prince

Caribbean troops and a group of returning Haitian refugees arrived in the Haitian capital of Port-au-Prince yesterday, which suggests that the US military believes it is in full control just 10 days before the scheduled return of exiled President Jean Bertrand Aristide.

The 262 Caricom troops from Jamaica, Trinidad, Belize and Barbados will be in charge of security at the port in the capital. This has become a vital task as humanitarian aid begins to pour in now that US troops have set up distribution networks.

Some 492 refugees arrived from the US naval base at Guantánamo Bay in Cuba. A total of 14,000 refugees remain outside Haiti, but US officials expect 500 a day to arrive should the country remain calm.

Political tensions have been partly defused by a virtual breakdown in the Haitian police force now that its leader, Lt Col Michel François, has fled to the Dominican Republic.

Police officers were completely absent from Haitian streets yesterday, remaining at their headquarters even while sporadic looting took place across the street from the US embassy.

US soldiers have worked with Haitians in recent days to locate the homes of suspected army auxiliaries, who terrorised the population with their harsh crackdown against supporters of Mr Aristide.

But with thousands of weapons still reported to be in the hands of pro-regime auxiliaries and other extremists and some Haitians thirsting for revenge, the potential for violence remains high.

Parliament yesterday continued to debate the granting of a general amnesty, a condition for de facto leader Lt Gen Raoul Cédras to step down, but appeared unable to arrive at a consensus.

Cardoso faces some hard choices

There are worrying signs of high inflation again, writes Angus Foster

Mr Fernando Henrique Cardoso, probably Brazil's next president, will inherit an economy apparently in its best shape for years. The new Real currency, which he planned when finance minister, is backed by $40bn of foreign reserves and has cut monthly inflation from 50 per cent in June to less than 2 per cent last month. This year's per capita growth is forecast at 2 per cent, while exports are at record levels.

But serious problems stemming from years of high inflation and political interference in the economy, remain. Unless Mr Cardoso acts quickly, inflation could return to undermine the credibility he has built with the Real.

Inflation may already be increasing by the time he takes over on January 1. Some food prices are rising because of a drought. Businesses are likely to raise prices in the run-up to Christmas, especially now the election is over. Consumer demand has risen sharply since the Real's launch, because the fall in inflation has left poorer consumers better off. August sales of televisions were 85 per cent up on a year ago and São Paulo's factories are the busiest since 1989.

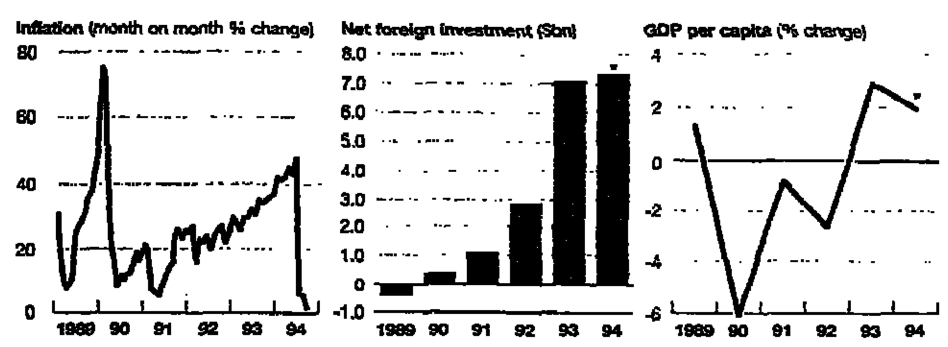
These signals of higher inflation are worrying, although most analysts expect the outgoing government's tight hold on credit and interest rates will stop any rapid rise. "Increasing demand worries me but it is not an explosion and it is controllable," said Mr Mailson da Nóbrega, former finance minister, who estimates inflation will remain at 2-3 per cent a month this year.

A bigger threat on the inflation front comes from the government's finances. Part of the reason for the Real's success was that the government managed to balance this year's budget, helped by one-off spending cuts and higher than expected tax revenues. Next year the picture is less promising. An emergency tax on bank accounts, which raises about $6bn annually, runs out this year. Without a replacement, next year's budget will have a deficit equal to about 1 per cent of GDP.

Mr Cardoso's advisers are well aware of the budget problems. Reforms to the fiscal and social security systems which were planned last year when he was finance minister were blocked by Congressional opposition. These changes include raising taxes and the number of tax payers – only 7m of the economically active population of 50m pay income tax.

The social security system also needs thorough reform. It is underfunded and, because of generous benefits such as early retirement introduced in 1988, the social security bill is set to reach $24.5bn this year, compared to just $14.5bn in 1992.

Brazil: The Cardoso account



Source: Central Bank of Brazil and Finance Ministry

* First six months

Mr Cardoso's apparent big election victory could give him the momentum to persuade Congress to pass unpopular measures such as higher taxes or reduced social benefits. But such reforms would not take effect until 1996 or even 1997, prompting observers like Mr Nóbrega to call for a speeded up privatisation programme.

There is increasing consensus in the private sector that these reforms are needed and that the state's role in the economy should be reduced. Politicians, who often use the state for private purposes, or to win elections, will need more persuasion.

For example, São Paulo is Brazil's most important state economically, but has a budget deficit equal to three years of tax revenues because of successive years of bad government. It owes about $7bn to its state owned bank, Banespa, which has had to approve politically inspired lending, much of which may never be repaid.

Other urgent changes are needed to stop state governments employing unqualified people ahead of elections in return for their votes. Corruption and waste is seen as extremely high in the health system, while the federal and state governments are expensively overstaffed yet rarely even check if their employees turn up for work.

Mr Eduardo Giannetti, a São Paulo-based economist, says Mr Cardoso needs to confront all these problems and end politicians' control over state banks. "In the abstract everyone agrees these questions should be tackled, until it comes down to imposing the loss. A new president has the authority to make people accept change, but he needs to act quickly. The first year is worth more than the last three of his mandate," he says.

With so much remaining to be done, confidence in the Real's future remains fragile. Unlike other countries fighting inflation, Brazil decided against making the Real fully convertible or setting it at parity with the US dollar. Instead, the Real is backed by foreign exchange reserves, and a government promise not to breach its own money supply targets.

If Mr Cardoso can use his first few months in office to instigate reform of the state and constitution, his momentum will help underpin the Real and inflation can be contained. If not, financial markets may lose confidence and Brazil's inflationary cycle could start again.

"We are not yet talking about [economic] stabilisation achieved. Inflation could come back and would mean a great loss of respect for democracy. People would feel they had again been cheated ahead of elections," said Mr Giannetti.

Moody's may raise rating

Moody's, the US credit rating agency, said yesterday it might raise its rating for part of Brazil's foreign debt, Richard Lapper reports. The action, which affects some $7.9bn of debt, comes in the wake of Mr Cardoso's election success this week. Moody's rating on so-called "interest due and unpaid" bonds and new money bonds, now B2, could change. The agency said the review "is motivated by the likelihood that the incoming administration will have sufficient power to implement comprehensive economic and political reforms." It pointed out that in recent years Brazil's domestic economy has been relatively dynamic and commercial debt arrears had been restructured.

NEWS: UK

Task forces to promote engineering

By Andrew Baxter

Five new task forces aimed at making UK industry more competitive by increasing substantially the influence and involvement of engineers were announced yesterday by Mr Michael Heseltine, trade and industry secretary.

Action for Engineering is a result of the Department of Trade and Industry's white paper on competitiveness, published in May. It identified a number of ways to improve UK industrial performance through better use of engineers.

The programme represents the first co-ordinated attempt to address the underlying problems for the economy caused by the relatively low status of engineers. It brings together industrialists, educationalists and the engineering professions in industry-led task forces.

Mr Rob Margetts, a director of ICI, has been appointed chairman of the programme's steering group, which was due to hold its first meeting last night.

The five main areas for action are:

- Stimulating enthusiasm in schools for engineering;
- Harnessing engineers' full potential in industry;
- Training more technicians, supervisors and skilled workers, and improving the quality of training;
- Attracting the best staff and students into engineering higher education;
- Enhancing the understanding and status of engineering at board level in companies, among financial institutions and opinion formers.

The task forces' aim is to bring greater focus and co-ordination to the many initiatives already under way, such as the work being done by the Engineering Council and others to encourage more schoolchildren to study engineering.

The task forces would be complementary to such initiatives and the long-running attempt by Sir John Fairclough, chairman of the Engineering Council, to create a more unified professional structure for engineering.

Dr David Evans, head of the DTI's technology and innovation division, said the department was participating in an enabling and supporting role, although "the ownership of this work has got to be within the engineering community".

No specific budget has been allocated for the programme, which is expected to last 18 months, but Mr Margetts said he would be surprised if additional improvements in funding were not made. He also said he would ensure the task forces did not turn into talking-shops by appointing busy, "action-oriented" people.

Howard bids to reassure police

By Alan Pike, Social Affairs Correspondent

Mr Michael Howard, home secretary, yesterday sought to reassure senior police officers over proposals they fear may lead to greater private sector involvement in policing.

He told the Police Superintendents' Association conference it was "simply not true" that a Home Office review of police tasks was considering encouraging companies or local authorities to patrol the streets and deal with traffic management.

Mr Howard said the review, due to be completed early in the new year, was intended to ensure that the money devoted to policing achieved the best possible results.

Mr Howard said the "era of rapid change" in the police service was almost over. The task now was to get on with policing, but this had to take place within the right framework of criminal law and the right organisational framework.

"But let me make one thing clear – I am not asking anyone to do the job of the police. You are the professionals in what is a complex, specialised and often dangerous profession."

He said the government's Criminal Justice Bill would put into effect 19 of the 27 pledges for tough action on crime that Mr Howard made at the Conservative party conference a year ago.

The bill contained a series of measures to give the police the tools needed to do their job, while the Police and Magistrates' Courts Act would improve local accountability of policing. It would require forces to set clear priorities, give managers greater freedom over resources and ensure regular reports on performance.

Tony Andrews

Under the Stock Exchange plan, trading will be suspended if there is evidence that price-sensitive information has leaked

Robert Peston on the case behind proposals for new trading rules

Stock Exchange roused by flurry

The Stock Exchange's plan to suspend trading in individual companies' shares when there is evidence that price-sensitive information has leaked was prompted by a flurry of dealing activity four months ago in Portals, the manufacturer of banknote paper.

On May 10 Portals shares jumped 44p to 679p, when 385,000 shares were traded. The exchange immediately started to make inquiries, as the price jump and the volume of shares traded were unusual for this particular security.

The initial investigation was carried out by the exchange's price and media monitoring group. The group is a bridge between the supervision department, responsible for ensuring the exchange's rules are followed, and its surveillance group, whose role is to detect and investigate criminal trading in shares.

The group wanted to ascertain whether there had been a leak of confidential price-sensitive information concerning Portals to investors. The company had received a takeover approach – from De La Rue, the banknote printer – but no announcement to shareholders had been made.

If some of these purchasers of Portals shares had known of the takeover talks, they might have been insider trading.

However, most were probably not "insiders" in the strict legal sense.

More likely is that a group of investors got wind that "something was up". They might for example have noticed that Portals shares had been bought by a stockbroker known for making well-timed investments.

So although the bulk of these deals were probably not criminal, there was an unequal distribution in the market of information about Portals' prospects. Anyone selling Portals shares at this time might have complained that they only did so because they did not possess the full facts.

It was not until four days after Portals received an approach that it made a statement, by which time a further 468,000 shares had been traded.

It was another three days before De La Rue was named as a possible bidder, by which time Portals' share price had reached 805p.

The Portals case provided a first taste for Mr Michael Lawrence – who had joined the exchange as chief executive two months earlier – of official procedures to ensure price-sensitive information is properly disclosed to the market.

He was extremely uneasy about the delay between the share price jump and Portals' public statement.

He initiated a review of exchange practices, which resulted in the publication yesterday of the consultation document on dealings ahead of the disclosure of price-sensitive information.

If the new system had been in place last May the chain of events would have been very different. As soon as Portals' share-price movement had breached a set of parameters – fixed on the basis of the normal volatility of its share price and that of other share prices in its sector – a warning would have been transmitted to the market on the exchange's Seaq trading screen.

Investors would have been alerted to an exchange probe into a possible leak of price-sensitive information – and that they should take care before buying or selling.

Under one of the proposals made yesterday there would also have been a simultaneous lifting of the obligation on market makers, the wholesaler of shares, to deal at the prices they quote on the Seaq screen.

Had the monitoring group discovered quickly that there was an innocent explanation for the price movement, the alert would have been lifted.

In this case, however, the exchange would have been told either by Portals or the takeover panel, the City body which acts as the referee of bids, that an approach had been made.

Portals would have been asked to make an immediate public statement. If it was unable to do so the exchange would have called a halt for 24 hours to trading in its shares, by which time Portals should have been able to make an announcement. Failing that, a further period of suspension would have been insisted on.

London-based securities firms reacted with caution yesterday to Stock Exchange plans to suspend trading if there is evidence that price-sensitive information has leaked into the market.

Suspensions are far less common in the London market than on Wall Street, and City stockbrokers agree privately that more frequent use of the exchange's power to suspend trading in such cases could prove beneficial.

Critics point out that suspension penalises stock holders indiscriminately, not just potential investors.

More frequent share suspensions could also cause difficulties with London's market-making system, which depends on the willingness of marketmakers to take on large positions in individual stocks.

The plan seeks to pre-empt anxiety about the effect of more share suspensions by introducing two warning stages before full suspension is imposed.

Milk board may face legal action

By Deborah Hargreaves

A farmers' organisation threatened yesterday to launch a legal challenge to the Milk Marketing Board if it went ahead with plans to charge Britain's 28,000 dairy farmers up to 4p a litre to provide the funding for market liberalisation in November.

Mr Richard Smith, chairman of the Northern Milk Partnership representing a group of farmers who have agreed to sell their milk to Northern Foods in the new free market, said he was examining ways in which any attempt to deduct money from his members could be resisted through the UK and European courts.

Mr Smith, who has also written in protest to Mr William Waldegrave, agriculture minister, called suggestions by the Milk Marketing Board for the levy "astonishing and, if implemented, nothing short of disgraceful".

The milk board needs around £30m to wind up its operations and establish Milk Marque, the voluntary farmers' co-operative that will succeed it. It said yesterday that the probability of the levy being imposed was minute, but that it had to have funds to hand should guarantees from its banks not come through in time for the market deregulation on November 1.

All farmers would have to pay the levy, even if they have no plans to join Milk Marque. Mr Smith said it was "iniquitous" that the 30 per cent of producers who had made alternative arrangements for selling their milk should be forced to pay. He said it would cost his members around £2,000 each.

The National Farmers' Union said it was concerned that the money might not be repaid. Sir David Naish, NFU president, is meeting Mr Bob Steven, chairman of the board, on Monday to discuss the issue.

The board needs to raise cash to finance the market's deregulation because the flotation of its processing arm, Dairy Crest, has been delayed.

THE DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

The theme for the 1995 prize, worth not less than £3,000, is: DOES FREE TRADE THREATEN THE ENVIRONMENT?

Applicants, aged under 35, of any nationality, should submit up to 1000 words in English on this subject, together with a brief c.v. and a proposal outlining how the award would be used to explore this theme further.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

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Blair offer to SDP defectors

By Kevin Brown and Roland Rudd

Mr Tony Blair offered an olive branch yesterday to social democrat defectors from Labour as it became clear at the party's conference in Blackpool that his drive to drop clause four socialism has wide support among delegates.

Amid increasing optimism among party modernisers that opposition to his constitutional reforms will be short-lived, Mr Blair promised to "welcome back" defectors to the breakaway Social Democratic party during during Labour's left-right battles in the 1980s.

"Of course I welcome back those people who left the Labour party in the early eighties for reasons that were understandable at that time. The Labour party went through a bad period then," he said.

The party's national executive committee last night rejected left-wing calls for a special constitutional conference to debate the proposed changes, which would water down Labour's historic commitment to public ownership.

But opponents will have an early chance to embarrass Mr Blair today in a debate on a resolution tabled by Glasgow members offering solid support for clause four.

The resolution, tabled before Mr Blair's announcement, will be backed by some of the big unions, including the TGWU general union.

The NEC will urge delegates to shelve the resolution. Mr Blair's supporters described this as little more than an opportunity for delegates to let off steam. However, supporters said the result could be close.

In a frank admission of the potential dangers of the reform programme, Mr Blair told the NEC that his promise to rewrite clause four was "a bold gamble that paid off".

Mr Blair, who finally decided to include the pledge shortly before the speech, attempted to minimise unease by promising widespread consultation with party members on the wording of constitutional changes.

The consultation will be led by Mr John Prescott, the deputy leader, who will insist that Labour cannot rule out public ownership in any form.

However, the wording of the revised statement of objectives is likely to lay greater stress on the party's commitment to community involvement in high-quality public services.

"In order to break through and convince the British people that it is right to change the government and vote in a Labour government, we must be clear about where we stand.

"It's not about dumping or ditching. It's about being clear and precise and offering a radical but sensible vision of the future," Mr Blair said.

The leadership is expected to shrug off a defeat on defence policy which will be announced today following overnight vote counting.

Ministry abandons housing sell-off

By Nicholas Denton

The Ministry of Defence has abandoned plans to privatise £3.5bn worth of housing stock by setting up a non-profit trust, and has appointed NatWest Markets, the investment arm of the UK clearing bank, to advise on new options.

The ministry blamed "technical difficulties" for the shift – it yielded to the Treasury view that the private sector should bear risk. "The question was whether a trust could be classified as a private-sector entity," it said.

The MoD said NatWest Markets would advise on fresh options to improve the management of its property and transfer the whole of the married quarters estate - 68,000 homes - to the private sector. The job for NatWest Markets is purely advisory and will last only a few weeks, but it leaves the company well-placed to act on behalf of the MoD in an eventual transaction.

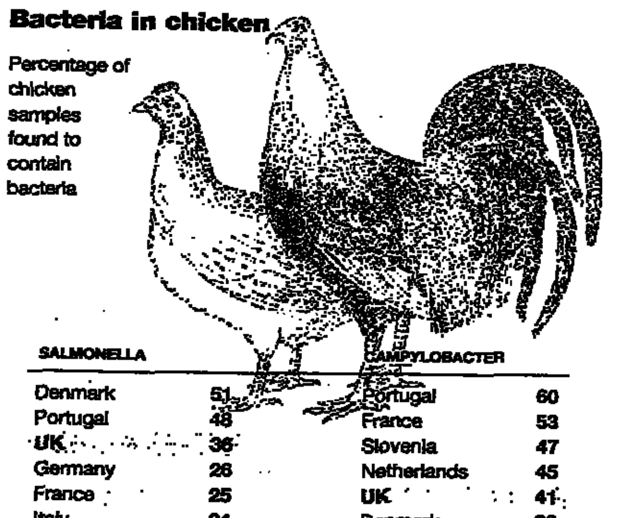
Under consideration is a sale-and-leaseback type of transaction which would provide funds to offset cuts in the 1995-96 defence budget while still giving the MoD the use of the majority of the properties.

NatWest is expected to look at a broad range of strategies: from transferring the homes to a company which would be sold in an initial public offering to partial privatisation. No action is also a possible recommendation. The size of the transaction will depend on the terms of the leaseback or rent-back arrangement but an MoD housing sale could be one of the last big UK privatisations.

The gross value of the housing stock is £3.5bn, according to the MoD and the official valuer. The MoD has budgeted for £500m of revenue from housing privatisation in 1995-96 and investment bankers say that the proceeds could go as high as £2bn.

Bacteria in chicken

Percentage of chicken samples found to contain bacteria



SALMONELLA		CAMPYLOBACTER	
Denmark	51	Portugal	60
Portugal	48	France	53
UK	36	Slovenia	47
Germany	26	Netherlands	45
France	25	UK	41
Italy	24	Denmark	36
Netherlands	23	Ireland	29
Belgium	16	Spain	26
Ireland	13	Germany	22
Slovenia	11	Italy	13
Spain	8	Sweden	10
Greece	4	Belgium	4
Norway	0	Norway	1
Sweden	0	Greece	0

Source: Which magazine

Which? warning on salmonella

By Alison Maitland

Only two in five raw chickens are free of bacteria which cause food poisoning, according to a survey published today by the Consumers' Association.

Salmonella was found in 36 per cent of 160 raw chicken samples tested in the UK, while 41 per cent contained the bacteria campylobacter, the association said in a report in Which? magazine. Campylobacter can cause diarrhoea, vomiting, pain and fever and in rare cases can result in death.

Britain had one of the worst scores for poultry cleanliness in a survey of 14 European countries by consumer organisations, the association said. Only Denmark and Portugal scored worse for salmonella, while the UK was fifth worst for campylobacter.

Norway had the cleanest chicken, with none of its samples carrying salmonella and only 1 per cent infected with campylobacter.

The association said this showed that better results could be achieved and called on the British government to clean up chicken production. Problems included contaminated feed, poor hygiene and cramped housing, it said.

Ms Charlotte Gann, senior editor of Which? magazine, said: "There is absolutely no way a shopper can tell if chicken is contaminated, so all chicken must be treated as suspect."

The association said some magazines were still publishing recipes using raw eggs with no warning of the dangers of salmonella. It said that one or two eggs in every 1,000 were likely to be contaminated.

Revenue says it pays tax-dodge informants

By Jim Kelly

The Inland Revenue yesterday revealed that it pays informants for help in catching tax dodgers. Unfortunately for the informers it then taxes them on the extra income.

The Revenue disclosed that in some cases it has paid up to £20,000 for information leading to the recovery of unpaid tax.

The sums can be less than £50, and in recent years there has never been more than a "handful" of payments. In the year to March 1994 it paid out a total of £7,050, in the year before £2,750, and £24,250 the year before that.

In its annual report the Revenue pointed out that funds recovered with the help of informers formed a small part of the £4.7bn collected in the last financial year – the equivalent to 2.5p in basic income tax. Under legislation dating from 1890 the Revenue is entitled to pay up to £50 for information. Any payments over that level must be approved by the Treasury. The Revenue stresses that payments, calculated by a secret formula, are made only after the unpaid tax has been recovered.

"In most cases a reward is not what they are looking for," said the Revenue, "but some do ask if one exists. Personal grievances between business or marital partners are a common reason for information being offered."

In one case study released with the annual report an informant told the Revenue of £150,000 transferred to the UK by Mr A from an account in Jersey. No record existed in his tax returns of an offshore account.

Mr A denied the charge but, using statutory powers, the Revenue confirmed the tip and the bank's security video showed Mr A withdrawing the funds. He was jailed for 12 months and fined £10,000 with costs.

In another case, a group of Revenue executives known as "ghostbusters" discovered coach drivers hiding their tips, selling refreshments and souvenirs and offering duty-free goods by pooling passengers' unused allowances.

They also accepted fees for stopping at shops and tourist attractions and also acted as an unofficial *bureau de change* at profitable rates. Others took on extra paid work as couriers.

Much of the extra income was not declared. So far 10 of the 18 moonlighters have settled with the Revenue, which is seeking repayment of £70,000.

Shinetsu to expand in Scotland

By Michiyo Nakamoto and James Buxton

Shinetsu Handotai, the Japanese manufacturer of silicon wafers, is to invest a further £23m to increase production capacity at its plant at Livingston near Edinburgh.

The investment will increase capacity from 130,000 wafers a month to 200,000 by January 1995 and to 330,000 by April, 1996. It will bring the company's total investment in the Livingston plant to £53m.

Last month NEC, the Japanese electronics company, announced it was to build a semiconductor plant at Livingston.

Shinetsu supplies NEC as well as other semiconductor manufacturers based in Europe, but its investment is not connected with the NEC expansion, the company said.

Britain in brief

Nadir aide charged over stolen money

Mrs Elizabeth Forsyth, a close associate of Mr Asil Nadir, was yesterday charged with two offences of handling money stolen from Polly Peck International, the fruit to electronics empire formerly chaired by the fugitive businessman.

Mrs Forsyth was chairman of South Audley Management, the company that dealt with Mr Nadir's personal tax and property affairs.

She was charged yesterday morning and later appeared in court to be remanded on bail until November 16.

The first charge against Mrs Forsyth alleges that between October 16 and October 22, 1989 she "dishonestly undertook or assisted in the retention, removal or disposal or realisation of certain stolen goods, namely £88,050 in monies belonging to Polly Peck International plc, by or for the benefit of another, or dishonestly arranged to do so, knowing or believing the same to be stolen goods".

The second charge is similarly worded but involves £370,000 allegedly belonging to Polly Peck.

Channel tunnel traffic grows

More than 110 trains now pass through the Channel tunnel each day, Sir Alastair Morton, co-chairman of Eurotunnel, said yesterday at an industry conference.

The traffic includes Eurostar expresses, under trial before the launch of commercial services early next month between London, Paris and Brussels. More than 100 Eurostar trains have used the tunnel since full-scale tests began last month, most them achieving scheduled journey times of three hours from London to Paris and 3¼ hours from London to Brussels, he said. The fastest took 18.4 minutes to pass between the French and English portals of the tunnel.

Legal challenge to London Tube strike

The RMT transport union faces the threat of a legal challenge to stop the 24-hour London Tube strike due to start at 7.30pm. London Underground is questioning the validity of the RMT ballot of its 7,000 members which voted to back industrial action.

"We are considering seeking a High Court injunction to prevent the disruption. There were irregularities in the ballot," the company said.

MANAGEMENT: MARKETING AND ADVERTISING

Mac has the Gaul to oust Disney

Mickey Mouse has been shunned in favour of something more Gallic in a new, French-inspired marketing drive for McDonald's restaurants across Europe.

In place of their American confrères at EuroDisney, near Paris, the fast food chain has looked to Asterix and his friends for its new campaign.

For the next few weeks, children who buy "happy meals" of hamburger, fries and coke at McDonald's will be given one of four Asterix characters.

"Sometimes people think of us as a US multinational bulldozing our way in," says Michael Boestam, marketing director for the company across Europe. "McDonald's is an American concept, but we try to be as local as we can."

He says that most customers are locals, so it is important that the management in the company's franchises is local. Not only is the choice of decor left to individual managers, but there are also concessions to local tastes – such as salmon in Norway and large salad bars in Italy.

Boestam says that Asterix is just one example of an increasingly local focus within Europe in recent months. "He is one of the most known symbols in Europe," he says.

The promotion – geared to a new film, *Asterix and the Great Crossing* – follows an earlier campaign based around a well-known European toy, Lego.

McDonald's has certainly not been shy in the past to use Walt Disney characters and other US themes in Europe. *The Lion King*, a Disney film, provided characters for a previous McDonald's promotion in Europe. So did two other Disney films: *Aladdin* and *Beauty and the Beast*.

And for the future? Boestam says Disney characters are a "possibility . . . but not definite". Asterix wins out in Europe, at least for now.

Andrew Jack

Knives out for pirates

A New York company is taking legal action against Bangkok's copycats. Victor Mallet reports

For a couple of years it seemed like a good idea: Izabel Lam, a growing New York jewellery and tableware design company, farmed out production of some of its cutlery to contractors in Thailand, where metalworking skills were available more cheaply than in the US.

Now the cost-cutting plan has turned sour. Tim McCarthy, Izabel Lam president, says Thai factories have been churning out hundreds of thousands of copies of his company's knives, forks, spoons and serving plates.

McCarthy reckons the pirates have cost Izabel Lam $6.5m (£4.3m) of lost business and $250,000 in legal fees as it attempts to remedy the problem with a torrent of litigation: "Sales of our [genuine] cutlery have dropped 90 per cent in the last three months."

Pirated copies of Izabel Lam cutlery have been exported to Japan, the US and Europe. As many as five Thai companies and 50 distributors in 20 countries are involved, McCarthy says. "Thailand has become the copying capital of the world," he says. "Contracts generally are not respected."

There is no doubt that intellectual piracy is rampant in Thailand. It is easy to buy pirated computer software, music cassettes and videos on the streets of Bangkok, although some items become temporarily hard to find when the US is making its annual assessment of Thailand's enforcement of copyright rules.

Copies of clothes and luggage by leading French and Italian designers are also openly on display at street stalls, as are "Rolex" watches costing a mere $10 each.

Most of these products are known to be copies or fakes by the people who buy them in Bangkok. By contrast, exports from Thailand to the west which may be in breach of international copyright conventions – or manufactured secretly by contractors in addition to their licensed production for legitimate brand names – are much more difficult to identify.

McCarthy values the total turnover of table-top products, including cutlery, at $18bn-$20bn in the industrialised countries, and he says about $5bn of this is accounted for by pirated merchandise from Thailand and elsewhere.

Unlike most other designers, Izabel Lam has taken the unusual step of making a public fuss about its piracy claims, and it has begun legal action in Thailand, Germany and France after finding what it regards as copies of its designs in shops in Europe and Thailand and on display at Thai stands during recent trade fairs in Frankfurt and Paris.

At the centre of the controversy is a product called Sphere cutlery, a design characterised by wavy handles culminating in bulbous ends. Izabel Lam, a Hong Kong Chinese designer who founded her Brooklyn-based company in 1980, was inspired by wavy underwater seagrass while scuba-diving, McCarthy says. "It's unique . . . so there couldn't be a case of somebody mistaking the design."

Michael Del Sol

Sparks of inspiration for Izabel Lam, but copyrighting them is fraught with difficulty

Since May this year, Izabel Lam has served "cease and desist" notices against shops and traders in France, Germany and Thailand selling what it believes are copies of its designs, and some have co-operated with Izabel Lam's investigations by suspending sales of the products and naming their suppliers.

'Virtually every major trade fair is being used by Thai companies to ship out bogus product'

The company has also obtained German and French court injunctions against Thai companies and a Thai government department promoting exports at trade fairs in Frankfurt and Paris. "Virtually every major trade fair is being used by Thai companies to ship out bogus product," says McCarthy.

Successful action against pirates is rare, but not unknown. Izabel Lam was encouraged by the expulsion of an Indonesian company from a Frankfurt textile fair in May after it was accused of copying US and European designs.

At a Frankfurt fair in August, according to McCarthy, no fewer than seven outlets were offering variants of Izabel Lam designs. He says he was told repeatedly that he would be killed if he attempted to pursue the matter in Bangkok – not an unusual threat in the Thai business world.

In Paris in September, Izabel Lam found one of its Thai subcontractors, N.V. Aranyik, a company based in Ayudhya, north of Bangkok, selling a design similar to Sphere under the auspices of the Thai department of industrial promotion. The Paris trade fair brochure shows cutlery similar but not identical to Sphere, with the handle-ends in the form of a loop rather than a bulb, but N.V. Aranyik denies copyright violation. "We are not copying anything," says Somchai Wangsilabat, a director.

Izabel Lam is forming a new pressure group to campaign for the rights of designers. Known as TOP Design (True, Original, Protected), it will be funded by $10,000 from each member company.

McCarthy also intends to pursue legal action in Europe and Thailand, but the impact in Thailand is likely to be limited by the difficulty of proving design theft for commonplace household items such as cutlery and by the small fines awarded in Thai courts for breach of copyright.

Thai government officials say that the maximum award made so far has been Bt200,000 (£5,065).

Until research, development and design in Thailand grow to the point where Thai companies have an interest in copyright protection, intellectual piracy is likely to remain a problem.

Nantabhat Bhukkanasut, an official of the Thai Department of Intellectual Property, says Thai courts have yet to decide whether cutlery should be covered by universal copyright protection or by patents for industrial designs. Izabel Lam, he says, should have registered its design in Thailand before starting production.

McCarthy replies that bureaucracy makes it impossible for a small company to register every new design in every country, but Nantabhat insists that Izabel Lam erred in assuming that its design would be protected by world copyright. "It was a false assumption," he says.

Advertising is being urged to tone down claims of its effectiveness, writes Diane Summers

The truth of the matter

Advertising can be its own worst enemy. It makes exaggerated claims for its ability to build brands, the result being that finance directors sometimes argue that any advertising campaign which fails to increase sales must be worthless. Why go on spending money, they say, on something that doesn't work?

Andrew Ehrenberg, research professor of marketing at the South Bank University Business School in London, wants to see claims for advertising's power toned down. He is leading a two-year research project on how advertising really works, backed by more than 20 participants from industry in the UK and the US, where he is visiting professor at the Stern School, New York University. Companies taking part include General Motors, CBS, Procter & Gamble, British Telecommunications, Prudential and Shell.

Ehrenberg and his colleague Neil Barnard argue in a paper on the project that views about advertising fall into three camps:

- Advertising as "natural ingredient in the marketing mix" – virtually a fixed cost and assumed to be effective. Research and evaluation are often dismissed by this camp as fairly pointless. This approach might have been just about tenable in the early days of marketing but, in more accountable times, is no longer acceptable.
- Advertising as an expense which is only justified when it pays for itself directly, through increased sales. The dominant position today, this view of advertising as valid only when it is brand building is a reaction to the earlier, unaccountable approach.

Ehrenberg and Barnard argue that the position is restrictive and leads to most advertising being classified as ineffective because, in mature markets, brands cannot continually enjoy increased sales.

- Advertising as a way of maintaining sales of a brand. This is the area on which Ehrenberg and colleagues want to concentrate in their research project. They argue that brand building may be the effect of advertising in certain restricted circumstances, but simply keeping customers should be advertising's more modest aspiration.

The brand maintenance perspective is not new, but the Ehrenberg team claims it is neglected and underdeveloped. Little is known about how advertising works for established brands, and they say that advertising planning is often based on misconceptions about consumer behaviour.

For example, Ehrenberg and Barnard believe that the nature of brand loyalty among consumers is often misunderstood and considered to be a much stronger force than is actually the case. "Your customers are mostly other people's customers who occasionally buy you" is a well-established principle of buying behaviour which, they believe, still surprises many advertising and marketing professionals.

To make their point about the comparative weakness of brand loyalty, Ehrenberg and Barnard quote a study of the instant coffee market in the US. This found that the average brand was bought three times a year by its customers, while those same customers bought instant coffee nine times a year on average – in other words, the average brand accounted for just one third of its customers' instant coffee requirements. Loyalty is nothing more than a propensity to buy a product, they say.

Ehrenberg says that deflating some of the more exaggerated claims for advertising and greater understanding of consumer purchasing behaviour should leave advertising more accountable and therefore in a stronger position to justify its existence.

PEOPLE

Nurdin & Peacock loses David Poole

David Poole, chief executive of cash and carry operator Nurdin & Peacock for the past three years, is leaving the company by mutual agreement following a clash of management styles.

N&P insists Poole's departure after 19 years with the group does not stem from problems of strategy or its implementation, and he leaves with full appreciation of his achievements. "There is no disagreement about the company's strategy," N&P says. "In this case, it is purely a matter of management style."

While N&P would not go into details, Poole is known within the retail trade for being a "hands-on" manager with a direct forceful style. Richard Fulford, the chairman, says N&P requires a "new management style and increased teamwork to progress the key initiatives which were put in place earlier this year".

Those initiatives include converting N&P's outlets to the TBW format, offering bigger general merchandise and office stationery ranges; the acquisition of the M6 cash and carry chain from Ireland's Fitzwilton – the first acquisition in N&P's 184-year history; and the building and opening of three US-style warehouse clubs, called Cargo Club.

Poole's departure will reduce the executive committee running the company from four to three. It will now be chaired by Tony Hopkins, trading director, and also includes Nigel Hall, finance director, and Alex Rentoul, commercial director.

Fulford will also be increasing his involvement as chairman, and says he is "confident that this team will take the company forward".

However, a successor to Poole is thought likely to be appointed in due course.

Electronic switches

Steve Rowley's appointment as general manager of Cellnet, the highly profitable mobile phone joint venture between British Telecommunications and Securicor, heralds a further advance by the IBM faction within the higher reaches of BT.

Rowley joins Cellnet on the coat-tails of Howard Ford, Cellnet's new managing director. Ford was recruited this June from IBM, where he was responsible for the group's personal computer business in Europe. Rowley, 35, worked with Ford as head of IBM's personal computer business division.

As managing director of Cellnet, Ford succeeded Stafford Taylor, another former IBM executive, who is now managing director of personal communications for BT's main business. The key BT post of corporate relations director was filled this summer by Ian Ash – yet another IBM veteran.

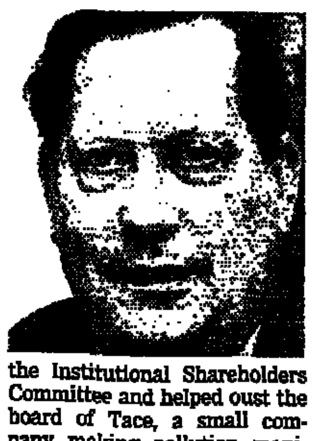
All this bears the imprint of Michael Hepher, BT's managing director, who has been systematically filling senior BT posts with outsiders used to life at the sharp end of sales and marketing. Hepher was recruited three years ago from Abbey Life, the insurance group, and has little time for the old utility mentality still strong at BT.

Unsurprisingly, Rowley's brief includes sales, marketing, products and customer service.

- Mike Watson, formerly director of business development at Oasis, has been appointed marketing and sales director at AEA TECHNOLOGY, part of the UK Atomic Energy Authority which is earmarked for privatisation.
- Mek Rahmani has been promoted to vice president/general manager – Europe of VIEWLOGIC SYSTEMS.
- Mike McGoun has been appointed corporate development director of P&P.
- Bill Lloyd, formerly general manager of Raxco, has been appointed UK general manager of PSDI (UK).
- Peter Little has been appointed chief executive of TORCH TELECOM; he moves from Millicom International Cellular.

Strategic move for Sandland

The hunt is on for a new chief investment manager for the Norwich Union Insurance group, one of Britain's biggest mutual insurers, following last week's retirement of Mike Sandland (right) after eight years in the post.



Sandland, 56, joined Norwich Union in 1961 and has spent all his life on the investment side of one of Britain's biggest institutional investors. In addition to managing £33bn, Sandland has made a name for himself as one of a growing band of institutional investors who are taking a more aggressive stance towards the managements of underperforming companies.

His most famous clash with one such happened three years ago when he was chairman of the Institutional Shareholders Committee and helped oust the board of Tace, a small company making pollution monitoring equipment. He is a member of the Cadbury committee on corporate governance and has been one of the leading institutional opponents of long rolling contracts for directors.

After 33 years, Sandland felt it was time to "get off the executive treadmill" and has retired three years early. His first retirement job is in joining Tom Frost, the former chief executive of National Westminster Bank, on the advisory board of The Strategic Partnership, a small management consultancy set up earlier this year.

Despite his criticism of some company boards, Sandland is hoping to pick up a few non-executive directorships. He has plenty of contacts, since his job at Norwich Union meant that he regularly met the chairman and senior management of nearly all of the UK's larger companies. (See Observer)

Le May returns to London and joins UBS

Malcolm Le May, 36, co-head of BZW's US merchant banking business, is returning to London and joining UBS to head its European corporate finance team.

Le May, an accountant who has worked for Drexel Burnham Lambert Securities and Morgan Grenfell, joined BZW four years ago and moved to New York early last year as co-head of merchant banking in New York. His departure comes only a few months after BZW appointed Ian Peacock, 46, who had been 19 years with Kleinwort Benson, as the other co-head of merchant banking in NY.

UBS, which claims to rank in the top five for all Euro-equity related issues, has around 140 people involved in corporate finance in London and another 40 in Zurich. David Robins, chief executive of UBS in London, says Le May has been recruited for his "transatlantic capability". Le May, who will be a vice-chairman of UBS in London, replaces Stephen Brisby, 43, an ex-Schroders merchant banker, who was appointed head of business development for UBS in Europe.

- Martin Baines has been appointed divisional director of QUILTER GOODISON's office in Birmingham; he moves from Albert E. Sharp.
- Peter Newman, formerly md, corporate banking at NatWest Markets, has been appointed md NATWEST Investment Services.
- Shigeo Ichikawa, formerly md of FUJI Capital Markets (UK), has been appointed an md of Fuji International Finance; he succeeds Kazuo Matsuda and is succeeded by Kitoshi Soizumi, formerly deputy general manager of the financial engineering division in Tokyo.
- Paul Myners, executive chairman of Gartmore, has been appointed a director of Gartmore American Securities.
- Tom Foley has been appointed to the board of IRISH INTERCONTINENTAL BANK.
- Ulf Sylvan has been appointed general manager of the UK operation of SVENSKA HANDELSBANKEN.
- Martin Hamilton-Sharp has been appointed a director of JUPITER TYNDALL Merlin.

CONTRACTS & TENDERS

FINANCIAL TIMES SURVEY

PRINCIPALITY OF LIECHTENSTEIN

Thursday October 6 1994

The tiny principality of Liechtenstein, wedged between Austria and Switzerland in the upper Rhine valley, must rank as one of the earth's most successful societies, writes IAN RODGER.

Prosperity is high, unemployment is virtually non existent, the economy is well balanced between highly productive secondary and tertiary sectors and modern social problems are almost unknown.

Indeed, the principality provides a case study of the economic virtuous circle taken to an extreme. Low taxation has attracted ever more investment in manufacturing industry and ever more business for Liechtenstein's trustee-lawyers who set up tax avoiding schemes for the world's rich. And their growth and productivity have prevented any need for tax increases for a long time.

Individuals pay 8 to 10 per cent tax on their incomes, active companies 6 to 18 per cent on their profits.

Neighbouring countries may complain that the principality's low taxes constitute an unfair competitive advantage, but the public sector is awash with money and would not know what to do with more of it. The national government has budget surpluses as a matter of course. The town of Vaduz, the capital, makes more money from investing its financial reserves than it does from taxes.

The key to this paradise-like state, apart from reasonably good management, is Liechtenstein's Lilliputian size. With an area of only 160 square kilometres and a population of only 30,000, it does not have to grapple with the costs or complexities of big regional or income disparities. And the demands placed upon it by the international community are modest.

The problems Liechtenstein faces are nearly unique – how to preserve its blessed state in the face of increasing integration in Europe, how to accommodate further economic expansion and how to prevent its democracy from being corrupted by a small but super rich elite of trustee-lawyers, bankers and industrialists.

The biggest problem facing all Liechtenstein industry and commerce is manpower. The principality's economic structure has long since outgrown the ability of the community to provide sufficient labour.

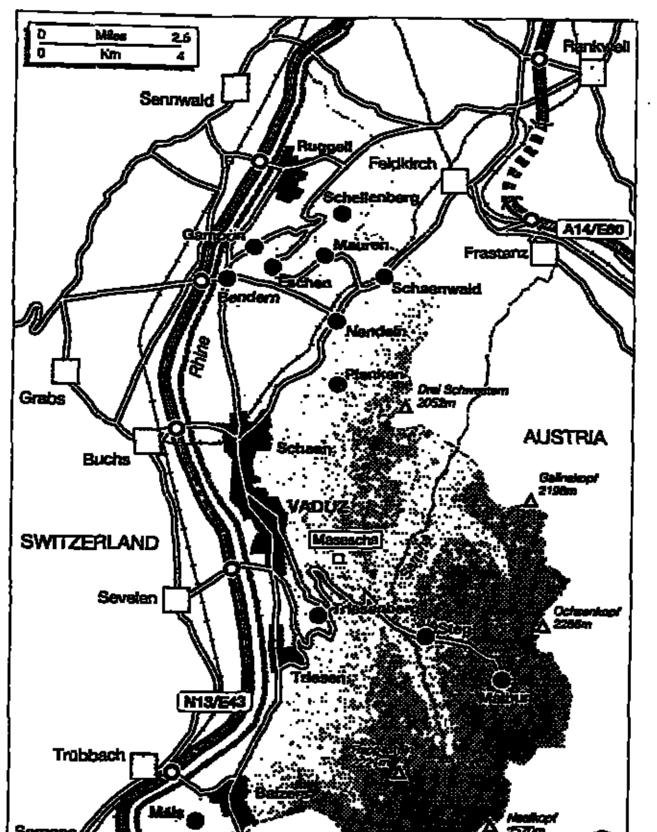
Foreigners now constitute nearly 40 per cent of the principality's 30,000 residents and, together with 6,500 commuters from Austria and Switzerland, 60 per cent of the 20,000 strong workforce.

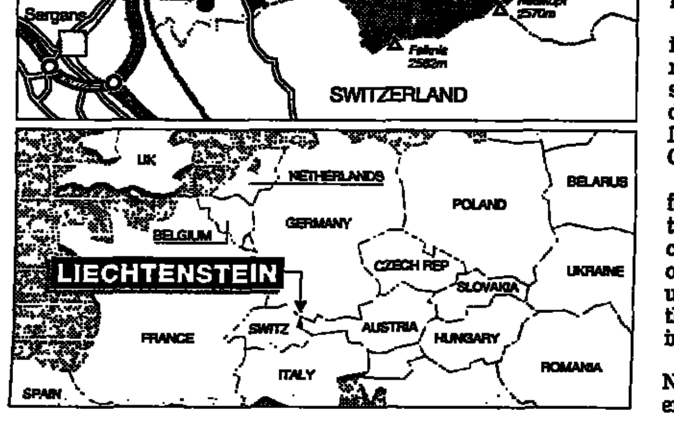
Political leaders say that these proportions are excessively high, provoking some disquiet among citizens. However, the statistics are not as stark as they look.

Liechtenstein has a very

This diminutive country has never had it so good. But its wealth is the source of its biggest problems

High finance and independence





mean policy towards immigrants, such that second and third generation permanent residents can easily be prevented from obtaining citizenship.

Mr Mario Frick, the prime minister, wants to change the law, and thereby to reduce the immigrant population to a more tolerable 30 per cent.

Still, the difficulty in finding qualified labour together with high wage rates have already driven many companies to set up factories in neighbouring Austria and Switzerland, and that trend will undoubtedly continue.

As has occurred elsewhere, it looks as if Liechtenstein companies will try to keep their higher value activities plus research and development at home. Thus, growth prospects may be limited, but the principality will continue to advance around the virtuous circle.

Liechtenstein has followed two strategies for securing its future independence, both paradoxically aimed at avoiding isolation.

The first, championed by the reigning prince, Hans-Adam II, has been to join international organisations, such as the United Nations, the European Free Trade Association (Efta) and the General Agreement on Tariffs and Trade (Gatt).

The second has been to join the European Economic Area (EEA). Liechtenstein's industries exported goods worth SFr2.5bn (SFr83,000 per capita) in 1992, with more than half of them going to European Union countries.

Thus, the principality could not be indifferent to the process of European integration. It did not want to join the EU itself, partly because it feared that EU financial directives would compromise its tax haven, but mainly because it does not have the manpower to carry its share of the administrative burden.

The EEA, an expanded free trade treaty negotiated three years ago by the European Union and Efta countries, seemed to provide a middle way, especially as the principality succeeded in negotiating an exception to the freedom of movement of people requirement.

Industrial leaders have enthusiastically endorsed the EEA agreement, making clear the consequences if Liechtensteiners do not approve it in a referendum later this year.

"If we do not join the EEA, industry will run down its manufacturing activities here," says Willy Frommelt, director-general of the Liechtenstein Chamber of Commerce and Industry.

However, there are mixed feelings among the leaders of the powerful financial community, and the outcome of the referendum remains uncertain. Even if it succeeds, the future of the EEA itself is in doubt.

If Finland, Sweden and Norway join Austria in entering the EU next year, the only remaining members of the EEA would be Liechtenstein and Iceland.

The Liechtenstein government's hope is that the EEA can be given new life as a halfway house for some eastern and southern European countries wanting to join the EU.

Another advantage of EEA membership is that it would require companies and financial institutions to adhere to EU regulations, thereby reducing their local lobbying power.

Until now, political balance in this small and tightly knit community has been maintained in no small measure thanks to the unique position and powers of the reigning prince. The story is told that the only legislation ever vetoed by the previous reigning prince, Franz-Josef II, was a measure to limit hunting licences. He could see that it was a scheme put up by the super rich who knew they could outbid ordinary citizens for all the licences.

"The prince is very important. We have to have someone here who is independent," says Peter Ritter, himself one of the most successful trustee-lawyers in Liechtenstein.

Yet relations between the prince, the government, the parliament and the people are unusually tense these days. Two years ago, Hans-Adam II startled his subjects by threatening to dissolve parliament if it did not endorse his demand for a referendum on the EEA in advance of one in Switzerland. Last year, he had another confrontation with parliament. When it threw out Markus Büchel as prime minister, the prince dissolved parliament rather than let the 25 members name someone else as they wished.

The prince, who insists that neither he nor a majority of the people would be satisfied with his having only a ceremonial role, has proposed constitutional changes to clarify everyone's roles. But it has been agreed to postpone discussion of them until after the EEA question and a clutch of niggling bilateral problems with Switzerland have been resolved.

Watch on the Rhine: looking south towards Switzerland from the Liechtenstein village of Masescha

First UK ministerial visit

MR DAVID DAVIS, UK minister of state at the Foreign Office, this morning becomes the first British minister ever to make an official visit to Liechtenstein.

Mr Davis, who has responsibility for European matters, said in an interview that he was looking forward to discussing European institutions and the handling of organised crime with the reigning prince, Hans-Adam II, the prime minister and the foreign minister.

As a tax haven, Liechtenstein has been remarkably successful in keeping criminals away, but it attracted considerable attention two years ago when it emerged that Mr Robert Maxwell, the collapsed media tycoon, based some of his activities in the principality.

Mr Davis said Liechtenstein officials had been very helpful in the Maxwell case, and he wanted to build on the co-operation established. "We do not want any boltholes for financial criminals," he said.

Britain also welcomed Liechtenstein's proposed membership of the European Economic Area (EEA), the expanded free trade area negotiated between countries of the European Union and the European Free Trade Association (Efta).

Interview: Prince Hans-Adam II

Active ruler joins the fray

These are testing times for His Serene Highness Hans-Adam II, reigning prince of Liechtenstein since 1989 and the last monarch in Europe with any real power.

The prince triggered a constitutional crisis two years ago by a rare exercise of that power, threatening to dissolve parliament if it did not endorse his demand that a referendum on joining the European Economic Area (EEA) be held in advance of one in Switzerland on the same issue.

In the end, a compromise was worked out, with the prince withdrawing his threat and the government agreeing to promote the EEA cause in the referendum campaign.

While the constitution clearly states that the reigning prince has responsibility for foreign affairs, Prince Hans-Adam was really making a more general point.

His father, Prince Franz Josef II, who led the formerly poor agricultural principality to undreamed of prosperity in the post war period, had gradually implicitly ceded some princely powers to the parliament and government.

The new prince wanted to claw back some of them, making clear in a famous statement during the constitutional crisis that he wanted to be an active monarch. "If they want someone who will just do representational work, they must look for someone else," he said.

Today, the 49 year old Hans-Adam remains pleased with the outcome of the crisis. Not only did a majority of Liechtensteiners endorse his recommendation to join the EEA, but popular sentiment in favour of an active monarchy was confirmed.

"There is no majority for a figurehead," he said in an interview in his palace office above Vaduz, a view fully endorsed in interviews with several other Liechtensteiners.

However, neither the EEA nor the constitutional issue is yet definitively resolved. Three months ago, the prince made a series of constitutional amendment proposals, mainly to adjust the division of powers and to incorporate a formula enabling the people to oust a disliked prince.

The proposals aroused considerable controversy. "We are still discussing them," the prince said with a smile. "But we all agree that we should not push for a solution before we have resolved the EEA question."

Prince Hans-Adam II: officially responsible for foreign affairs

Liechtenstein's entry into the EEA has been delayed by the need to work out a system for preserving its customs union with Switzerland, which decided not to join. The prince said arrangements had been agreed among officials and documents were "ready for signing".

The government has agreed to hold another referendum on the final terms, giving the people another opportunity to endorse or reject entry. The prince said he was "fairly confident" that the result would be positive again.

He believes fervently that the principality's future security and independence depend on closer ties with the rest of Europe. "If we can progress in this way, with the economy integrated with the EEA, we will be in a much better position than in the past. It also has economic implications – in terms of the inflow of money and exports of industrial goods."

On the other hand, he does not want Liechtenstein to join the European Union. "The main problem is that we are too small. We would have to open our borders to people and we would have an inflow of thousands of rich people. We could only control it by raising income tax, and our people would not accept that."

He also acknowledges that the principality's main international relationship for the foreseeable future will remain with Switzerland, even if Switzerland remains outside the EEA and EU.

The prince is known as a deeply conservative and devout Catholic and his constitutional initiatives might suggest that he was a diehard traditionalist. But he has also worked vigorously in recent years to update the ancient princely family code (Hausgesetz).

"My father thought we should adapt it to the modern world. He started working on it in the 1960s, and I finally got the family's agreement on it last year."

The new code sets out clear criteria for defining who are family members – there are now nearly 120 – and prevents them from exploiting the name for commercial gain. Offenders can have their titles removed.

The code also provides for a process for the family to remove a reigning prince if he is not behaving responsibly. Only the nearly 50 males over 18 are allowed to vote. Hans-Adam regrets that his attempt to give women the vote was rejected.

He has also been trying to recover the family's immense property holdings in what is now the Czech republic. In all, the family claims 1,600 square kilometres of mostly forested land there, about 10 times the area of the principality itself.

After the second world war, Czechoslovakia classified Liechtenstein with Germany as a country from which no demands for recovery of confiscated assets would be accepted even though the principality was neutral during the war.

The Czech republic has signed treaties that oblige it to treat Liechtenstein as it treats other countries. But it fears that if it gave way to Liechtenstein, it would also have huge claims from former Sudeten Germans.

"We understand that it is a touchy problem for them," the prince says. "There is not much we can do."

Talk has begun in Liechtenstein about the prince's possible retirement. This has become something of a tradition in the family.

"My father retired, and his predecessor too. I will try to turn over the job at the appropriate date. My eldest son is 26. He still has some training to do."

Ian Rodger

THE PRINCIPALITY OF LIECHTENSTEIN II

Ian Rodger examines the foreign policy options of a mini-state

Tiddler in deep water

Liechtenstein has been unusually active in the diplomatic field in the past few years.

In 1990, it established a mission at the United Nations In New York. The following year it opened one in Geneva accredited to the international organisations there and last year it set up an office in Brussels.

The principality makes no pretence of having any power whatsoever in international affairs. Its main purpose in building up an international presence is to secure its legitimacy as an independent state. This, in turn, its leaders believe, contributes to the credibility of its tax haven in particular and to the health of the economy in general.

After living under the diplomatic wing of Switzerland for most of this century, the principality first struck out on its own in 1978 joining the Council of Europe. In 1982, it achieved special status at the Conference for Security and Cooperation in Europe (CSCE) in Vienna and it became a full member of the United Nations in 1990.

In 1991, it became a full member of the European Free Trade Association (Efta), mainly to negotiate special exemptions from the freedom of movement requirements of the European Economic Area (EEA) treaty then being negotiated with the European Union (EU). Until then, it had been an associate member under Switzerland's wing. And earlier this year, it joined the General Agreement on Tariffs and Trade (Gatt).

Ms Andrea Willi, foreign minister, says the principality puts most of its efforts on the international stage into good causes – human rights, environmental protection, women's rights and culture.

It has been especially active in the area of minority rights. In July, the reigning prince donated $467,000 to Princeton University in the US to fund a research programme on the right to self-determination. "We really care about this subject. We are a small country. Our borders are at the door. Every day we see our limits," Ms Willi says.

On a bilateral level, efforts are concentrated almost entirely on Switzerland. Although the principality was established by the Austrian Emperor Karl VI in 1719 as a seat for the noble Viennese Liechtenstein family, its people have always been culturally closer to the Swiss than to the Austrians. Thus, when the Austro-Hungarian empire collapsed in 1921, it was no trauma for the principality to attach itself to Switzerland. It adopted the Swiss franc as a national currency in 1921 and concluded a postal treaty with its neighbour in the same year. A customs union was established in 1924 and a formal currency union settled in 1980.

Bilateral relations over most of this century have been remarkably tranquil. It is only since December, 1992 that things have become complicated. In that month, Liechtensteiners voted in a referendum in favour of joining the EEA, the expanded free trade area proposed between the EU and Efta countries. But the Swiss voted to stay out.

Thus, the question arose of how Liechtenstein could respect its obligation to provide for the freedom of movement of goods with other EEA countries and adherence to EEA standards and still maintain its customs union with Switzerland.

It has taken a long time to find an answer to this question although Liechtensteiners blame their own frequent changes of government in the past two years for much of the delay. Officials say there were very few problem areas anyway, because the Swiss have increasingly aligned their industrial standards on those of the EU.

One important exception is the motor business. Switzerland has long protected its car dealers from foreign competition with a panoply of special specifications for cars to be registered in the country.

The elegantly simple solution that has been found is that a Liechtensteiner will be able to buy either an EEA or a Swiss specification car, but when it comes to selling it, he can sell it only to another Liechtensteiner or to someone in the area whose specifications it respects.

This system will be easy to police because the Swiss car authorities would simply refuse to register an EEA specification car.

Most other goods on which standards differ are industrial intermediates, such as poisonous substances, and these will be controlled at company level. According to Willy Frommelt, director-general of the Liechtenstein Industry Association, the principality will need the grand total of five VAT inspectors.


Andrea Willi: in pursuit of good causes

Final agreement on the revisions to the customs union was achieved this week. Liechtenstein must now present the details of the deal to its EEA partners for their approval and then give its own people an opportunity to approve or reject it in a referendum.

Assuming all this can be accomplished in the next three months so that Liechtenstein joins the EEA on January 1, the principality's anxieties will not be at an end.

That would leave only Switzerland, Iceland and Liechtenstein in Efta, and only Iceland and Liechtenstein as non EU members of the EEA. And it is likely that Switzerland, and perhaps Iceland too, will at some point join the EU.

Liechtenstein, on the other hand, has no intention of joining the EU. "It is not on the agenda," declares Ms Willi. Being such a small state, it would be unable to fulfil the responsibilities of a full member. Moreover, it fears that EU laws would eventually hurt its tax haven.

The prince and government leaders agree that the EEA is just right for Liechtenstein, giving it most of the advantages of EU membership with protections for its economic and social structures.

However, the future of both Efta, which has a modest permanent bureaucracy, and the EEA do not look exactly secure. Ms Willi makes clear that there is little that tiny Liechtenstein can do, other than make suggestions.

She says, for example, that EFTA and the EEA might be suitable routes towards EU membership for some eastern and southern European countries. Efta had third country trade agreements with 11 countries, and the EU had invested a lot of time and thought in creating the EEA. "It is a useful model," she says.

KEY FACTS

Area	160 sq km
Language	Allemannish dialect of German
Head of State	Prince Hans-Adam II
Head of Government	Dr Mario Frick
Population	29,868 at census of December 1992
	(including 11,432 resident aliens)
Capital	Vaduz (population 4,995 in Dec'92)
Currency	Swiss Franc
GDP per capita (1991)	SFr89,474 ($62,395)
Inflation (1991)	5.9%
Budget (1994)	Revenue SFr518.6m, Exp.SFr505.4m
Exports (1992)	SFr2,480.9m ($1,764m)
by destination	EFTA 18.9%, EU 44.9%, Others 36.2%
Tourist arrivals (1992)	Total 72,000 - Germany 33.0%
	Switzerland 21.6%

Source: Europa, EFTA

■ TOURISTS

Birds of passage

Drive into the centre of Vaduz on a normal day and you will see at least a dozen large coaches in the central parking lots and scores of tourists ambling about the town centre.

Tourism, it would seem, is a brisk trade in Liechtenstein.

Well, yes and no. In terms of numbers, it looks pretty impressive for a small place. Up to 150 coaches a day, 72,000 visitors a year, 150,000 bed nights. Mr Berthold Konrad, director of the tourist bureau, estimates it accounts for a tenth of the principality's economic activity.

But behind those figures are some disturbing trends. The number of visitors, for example, is down from a peak of nearly 86,000 in 1985. Bed nights have fallen from 168,000 in 1985. And there would appear to be no stopping the downward trend.

The problem is that Liechtenstein is so small that it does not have enough attractions for most classes of tourist today. It is not the sort of place you would take your family for a fortnight's summer holiday. While the mountainous back country is beautiful and the Swiss and Austrian Alps are nearby, it would be more sensible and probably cheaper to stay somewhere in Austria or Switzerland and make a one day excursion to Liechtenstein.

Similarly, the winter sports facilities, mainly the ski resort at Malbun, are too modest to appeal to other than weekenders.

The result is that the principality has increasingly become a two or three hour stop for coach tours. They come, they have lunch, they visit the prince's castle and the splendid museums, they buy some stamps and post some postcards and they leave.

"Many people who come in coaches do not even know they are in Liechtenstein," Mr Konrad complains.

Since the country has a customs union with Switzerland, there are no Liechtenstein border controls. Swiss immigration and customs officials man the border crossings with Austria.

To meet the demands of those who want a visa stamp in their passports, the tourist office hires a student in summer who provides the service for SFr2.

Even the principality's once lucrative stamp business is declining, as more and more children travel rather than learn their world geography through philately. The government issues only four stamps a year and pegs the prices so that children in developing countries can afford them.

The tourism office tries gamely to attract new custom, always coming up with new suggestions for coach tour operators to lengthen their Liechtenstein schedules. In cooperation with hotels, it has begun to publish regional itineraries using the principality as a base, complete with detailed menus. But it seems to be rowing against the current. As he admits, there is not much night life in Vaduz. Many of the principality's visitors prefer to stay in Zurich.

The hotel trade has to struggle constantly to square a vicious circle. Chronic labour shortages mean hotel operators have to import workers and pay high wages. But their room rates have to remain competitive with nearby Austrian and Swiss prices.

"I pay higher wages than Zurich hotel operators but people would not pay Zurich rates for rooms here," one Vaduz hotel manager says.

Many hotel operators have already given up, calculating that their valuable land can be put to more profitable use. The number of beds has plunged from 1,760 in 1980 to 1,400.

Mr Konrad says it is difficult to mobilise popular support for the tourism industry. "In Vaduz, they think of it as a traffic problem," he says.

I.R.

Andrew Fisher studies innovation at HILTI Group

Building for success

"Innovation is very, very important to us," says Mr Pius Baschera, head of the executive board at Hilti, the Liechtenstein-based maker of fastening systems for the construction industry.

This year, the company is spending SFr70m (£35m), roughly 3 per cent of turnover, on research and development. It is also introducing more than 50 new products to its range of power drills, screw- and nail-guns, chisels, and pneumatic and adhesive fastening equipment. But, says Mr Baschera, innovation at the company goes far beyond the products. It extends to the manufacturing process, logistics and marketing.

Hilti, which employs more than 12,000 people worldwide, is also subjecting its management structures and attitudes to a decisive blast of innovation. It has laid down that no board member should stay in office beyond the age of 56 – the average age of the present board is 46 – and that their contracts should run for three years, with renewal depending on performance.

The idea says, Mr Michael Hilti, chairman of the (non-executive or supervisory) board of directors and son of the founder, Mr Martin Hilti, is to keep management alert and to encourage those still climbing the corporate ladder. "We want to give young people a chance to move into the high ranks. If they're 40 to 45 years old, they can really contribute their best to the company."

Mr Baschera, he noted, was only 39 when he joined the executive board. "It's too long if you stay in the board until 60." Baschera is now 44 and the younger Hilti 48. The oldest board member is 54. Two executive board members in their mid-50s retired last year after the new rule came in; one is on the non-executive board, the other has joined the trust owning the shares in the company. Michael Hilti also left the executive board, stepping up to the supervisory board in a full-time role when his father bowed out at nearly 80.

Because Hilti's markets are so widely spread – last year's turnover of SFr2.1bn was achieved in more than 100 countries from plants in Germany, the UK, the US, Austria and Hungary, as well as Liechtenstein – it is keen to focus its manufacturing and sales efforts as efficiently as possible. Thus it has changed the way its plants are organised, reordered its sales force and tightened its management.


Michael Hilti: youth to the fore

Its 6,000 salesmen now concentrate on specialist customer areas such as construction, mechanical and electrical engineering, general industry and government. This segmentation approach, already introduced in Germany (its biggest customer, accounting for 20 per cent of business) has led to much closer links with customers, says Mr Michael Hilti.

The company's new computerised information system has made it possible for managers to be much more mobile and in touch with customers and the shopfloor. "We want people to be really down in the organisation, especially top management. We don't want them sitting in a glass house, however nice it is," he adds, gesturing to the big office window and the mountains beyond.

Hilti also places great stress on educating up-and-coming managers and developing their potential. "We give responsibility very young, earlier than other companies," explains Mr Baschera. "We have a lot of general managers in their early 30s and our experience with them has been very good."

On the manufacturing side, the company has assigned each plant a core technology, thus concentrating its efforts. It has also introduced a more team-oriented approach in the plants, with managers responsible for a range of functions such as quality, maintenance, planning and personnel. This has speeded up manufacturing times and boosted productivity, though Mr Baschera declines to give figures.

As well as motivating younger managers, Mr Hilti says the more streamlined management structure keeps the more experienced ones on their toes and prevents empire-building. Managers tend to stay in their jobs for a maximum of five years. "This gives air to the system."

THE PRINCIPALITY OF LIECHTENSTEIN III

Tax haven role leaves postage stamps in the shade, says **Ian Rodger**

The Swiss are watchful

Liechtenstein's most famous business used to be the issuing of exotic postage stamps. Unfortunately, philately is on the wane these days, and the principality has moved on to other things.

Now it is known best as a tax haven.

The sector achieved especial notoriety three years ago when Mr Robert Maxwell's empire collapsed. Much of the former UK media tycoon's skullduggery was executed secretly through Liechtenstein trusts, including the rather grandly named Maxwell Foundation.

The principality's trustee-lawyers are now in the midst of a tricky row with Switzerland which fears that Liechtenstein is competing unfairly for this business.

Liechtenstein's approach to being a tax haven has been an unusual one. It did not want a huge influx of foreign banks and fund managers overwhelming the local population as has happened in Monaco or Jersey, so it maintained severe restrictions on banking activity.

Until two years ago, there were only three banks in the principality; today there are five.

Rather, it proposed to the world's rich that they could set up unusually flexible Liechtenstein domiciled companies, foundations and trusts. Through these entities, they could hide the ownership of their liquid assets on which taxation is, in most cases, a nominal SFr1,000 a year, regardless of the size of turnover, profit or assets.

However, because of the paucity of local banks and professional fund managers, the funds in the trusts and foundations have to be held and managed mainly outside Liechtenstein.

It has been a phenomenally successful strategy. Local estimates, based on a simple calculation from the tax take from these domiciled entities, put their number at something like 70,000, more than double the principality's population. Leading bankers and trustees estimate that 60 per cent of Liechtenstein's tax revenues, some SFr500m a year, come directly and indirectly from the financial sector.

The Liechtenstein approach has also, notwithstanding the Maxwell case, been remarkably troublefree. No case of drug money laundering has ever been uncovered there, for example.

No case of drug money laundering has ever been uncovered in Liechtenstein

Trustees say that this is mainly because they are in a small, tightly knit community. A black sheep would not be tolerated. And because their businesses too remain relatively small, they have the time to examine every transaction that passes through their offices.

There is increasing evidence that foreign clients are comfortable with Liechtenstein entities. Mr Peter Ritter, chairman of Präsidial, one of the largest trust firms, points out that the average age of Liechtenstein trusts and foundations is about 15 years, compared with only six or seven years in the British Virgin Islands. "With all the problems we have had, we are still doing our job," Mr Ritter says.

However, their relatively tranquil life is now being shaken up. The main immediate threat comes from the Swiss, who have launched a two pronged attack to learn the identity of their clients.

Last November, the Swiss people endorsed a government plan to introduce a value added tax on all goods and services. At the time, nobody thought much about Liechtenstein, the Swiss simply assuming that the principality would fall into line and do the same.

The Swiss finance ministry also assumed that it would collect the VAT in Liechtenstein, just as it collects the current sales tax on goods there.

The trustees initially fought to be exempted from VAT on the grounds that their clients were foreign, but eventually retreated because the basic principle of their activity is that the trusts and foundations they set up for these clients are domestic.

But they are horrified at the prospect of turning over their client invoices to Swiss VAT inspectors. The Liechtenstein government took up their cause and made clear to the Swiss finance ministry that, as a sovereign state, it had the right to set and collect its own VAT.

The Swiss finance ministry balked, claiming that it feared that Liechtenstein would administer the tax in such a way as to give its financial businesses an advantage over Swiss ones. There were threats of cancelling the bilateral currency treaty, under which Liechtenstein banks have the implicit ultimate backing of the Swiss National Bank.

Liechtenstein then agreed to make the rates and conditions of the tax identical to those in Switzerland. The dispute has still not been settled, but it is difficult to see how the Swiss can prevail.

Meanwhile, the Swiss are pressuring Liechtenstein to adopt a due diligence agreement that is basically identical to theirs. The main difference between the two at the moment is that Switzerland requires bankers to know the beneficial owners of all their accounts while Liechtenstein permits an exception from the rule provided that a registered trustee knows the beneficial owner's identity.

Liechtensteiners admit that their practice gives additional comfort to some clients, in that they know that fewer employees, auditors, inspectors or bureaucrats can find out their identity so the risk of disclosure is perhaps less than in Switzerland.

But they say there is no difference in substance so the Swiss should retreat. Moreover, they say, they are about to put their due diligence agreement into law, whereas the Swiss one is only an agreement among bankers.

In the longer term, the trustees fear pressure from neighbouring European countries on Liechtenstein to raise its taxes. "Liechtenstein should be preserved as an offshore centre in Europe. It is better than recycling investment funds through the Caribbean," says Mr Edmund Frick, president of the Liechtenstein Treuhander Vereinigung.

Liechtenstein's rugged landscape: reassuring for investors

■ BANKING SERVICES

Nicely, thank you

Foreigners who think of Liechtenstein as an offshore banking centre and tax haven are often startled to discover that the principality has only five banks, all of them locally owned and controlled, writes IAN RODGER.

Moreover, Liechtenstein cannot really be described as a banking centre in itself. Rather, it is a part of the much larger Swiss banking scene, using the same currency and, by and large, the same rules.

Until two years ago, the principality counted only three banks, Bank in Liechtenstein (BIL), the largest, which is owned by the royal family, Verwaltungs- und Privat-Bank, a bank set up by a prominent trustee-lawyer in 1956, and Liechtensteinische Landesbank, which is state owned.

The government long held a policy of rejecting applications for new banking licences on the grounds that the principality was too small and had insufficient labour to staff and supervise any more banks.

This attitude was relaxed slightly two years ago in anticipation of the country joining the European Economic Area, and since then, two new banks, Neue Bank and Centrum Bank, have started up.

While the three original banks are licensed as universal banks, the main business of all of them is asset management for individual clients, with most referred from local trustee-lawyers.

VP Bank, for example, says three quarters of its clients are from outside Liechtenstein.

Over the past few years, the banks have prospered enormously from this arrangement. In 1980, the combined balance sheets of the three stood at SFr4.4bn. At the end of last year, the five had combined total assets of SFr22bn.

Even the entry of two new banks appears to have been well timed. "It has been a good time to set up. A lot of money came from Switzerland to Liechtenstein last year," says Mr Heinz Batliner, chairman of VP Bank.

However, the cosy arrangements of the past are about to be jostled a bit. Assuming that the principality joins the EEA, it will have to open the way for banks registered in any EEA country to set up an office in Liechtenstein.

Opinions vary on how many EEA banks will choose to take advantage of this opening, but most people think the number will be small. "In my view, we will not see an influx of credit institutions," says Mr Hubert Büchel, a senior official in the economics ministry. "The principle of home country control means that they would be supervised by their home country anyway. And people bringing money to Liechtenstein will probably continue to prefer to put it in an institution supervised by Liechtenstein," Mr Büchel predicts.

The five banks use Swiss currency and are part of the Swiss banking system

Mr Batliner points out that any newcomers would also have difficulty finding adequate staff.

BIL, which itself has a large international presence, welcomes the idea of more newcomers. "We have no problems with more competition. We are present throughout the world. If other good banks come here, that will make us even better," says Mr Fritz Bühler, chief executive.

The more substantial concern is how long and to what extent the principality will be able to hold on to its key advantages as an offshore financial centre – mainly bank secrecy and its very low taxes.

The Swiss, for example, are currently pressing the Liechtenstein authorities to accept Swiss practice in terms of due diligence. This would require banks to know the identity of the beneficial owners of all their accounts. Under Liechtenstein practice, this rule is waived if the account has been referred by a registered local lawyer-trustee.

Although the difference seems marginal, Liechtensteiners acknowledge that a lot of money has flowed from Switzerland to the principality in the last couple of years since the Swiss tightened their disclosure requirements.

In the longer term, bankers suspect that pressure from other EEA countries will build up to raise taxes on the letter box companies to normal levels. That would gradually dry up the flow of funds from the lawyer-trustees and force the banks to become more competitive fund managers.

"We set up a sales department five years ago to sensitise our staff to the likelihood that we will not always be able to count on new clients coming through the door," says René Ott, international director of BIL.

In anticipation of joining the EEA, Liechtenstein is updating many of its financial laws.

A law making money laundering from drugs or insider trading activity a criminal offence was passed two years ago and will come into effect automatically with the entry into the EEA. The government intends to widen it to cover all types of money laundering.

It is also revising its investment fund law, with the hope of stimulating this so far undeveloped sector. And a new law on insurance supervision is being planned. At the moment, the principality has no insurance industry, and some financiers see opportunities in the offshore captive reinsurance field.

■ **Profile:** BANK IN LIECHTENSTEIN (BIL-GT)

High-class family business

It would be difficult to find a better business address in Liechtenstein than that of the BIL-GT group, formerly known as the Bank in Liechtenstein.

The group is controlled, to the extent of 99.7 per cent of the voting capital, by the princely family through the Prince of Liechtenstein Foundation, although there is a public float of some 727,500 participation certificates.

BIL-GT has grown very rapidly in the past decade to become a global asset management group of respectable rank, with SFr54bn in funds under management and total assets of SFr9.5bn.

As recently as 1981, Bank in Liechtenstein was an insignificant financial institution with 150 employees, all of them in Liechtenstein.

That was the year that Christian Norgren, a young Swedish banker, was hired by the princely family to build it up, particularly outside the principality.

Over the next few years, there was a flurry of acquisitions, three in Germany, and one in each of the UK, Switzerland and the US, culminating in 1989 with the £91.5m takeover of GT Management, one of the leading UK fund management groups.

Unfortunately, in the same year Mr Norgren was caught in an insider trading operation and left the group.

Over the next three years, BIL had considerable difficulty integrating its big UK investment, as reflected both in sluggish income and equity price growth. Net income fell three per cent in 1992 to SFr81m. The BIL participation certificates tumbled from a high of SFr850 in 1989 to a low of SFr260 at the end of 1992.

At the time, there were still four GT subsidiaries outside the UK and three BIL subsidiaries outside Liechtenstein and very little contact among them. "There was a total lack of coordination," a BIL executive admits today.

In early 1993, the group considered selling GT, but eventually agreed to keep it, provided that directors from both sides would pursue a sensible integration.

Prince Philipp, the reigning prince's younger brother and the group's chairman, became chief executive and an executive committee of six directors was established.

Among the simpler changes was to have GT use BIL more and more as the group's bank, notably for foreign exchange, money market transactions and financing funds' leverage. "A year ago, the bank got no deals from GT. Now it gets deals every day," says René Ott, managing director of the bank.

BIL's net income in the 1994 first half rose 40 per cent, following last year's 75 per cent jump

A more important strategic realignment put GT in charge of global institutional fund management and BIL in command of global private banking.

Last year's group net profits soared 75 per cent to SFr141.3m, but Mr Ott says the result did not yet reflect the impact of the restructuring. Cost savings are beginning to be seen in the 1994 accounts and will become more apparent in the next couple of years, he says.

In the first half of this year, in defiance of the general trend among Swiss banks, BIL raised its net income another hefty 40 per cent to SFr96.6m. It attributed this continuing progress mainly to its concentration on asset management.

Commissions and fees account for about 70 per cent of its revenues while the more volatile trading business, which has hurt many other banks this year, represents only 8 per cent of total revenues.

While the BIL group is large, it does not believe it has yet reached a sufficient size to achieve its goals. "Our goal is to be one of the major privately owned international portfolio managers. We think we need to be managing at least SFr100bn," Mr Ott says.

As a result both GT and the bank are still expanding aggressively, using each other's infrastructure when possible. GT, which has traditionally been strong in the UK and the US, is opening offices in Madrid and Paris next year and strengthening its presence in Germany. The bank has just opened an information office in Luxembourg.

This does not mean it is foresaking Liechtenstein, but the group has little opportunity for growth there. It also suspects that the principality will have difficulty maintaining its competitiveness as a tax haven over the longer term.

Significant top level personnel changes have just been made. Mr Peter Stevens, chief executive of GT in London since the acquisition, is leaving the executive committee, although he will continue to chair the audit committee. Coincidentally, Mr Fritz Bühler, chairman, bank, is stepping down and will be succeeded by Hans Haumer, former chief executive of GiroCredit, the third largest Austrian bank.

Ian Rodger

TECHNOLOGY

In-flight interactive TV is coming to a 747 near you, reports Charles Jennings

Front row seat

Depending on whom you believe, interactive in-flight television is either with us, about to be with us, or still so lost in the planning stage that no one can be sure when it will arrive.

Interactive TV will mean the end of the communal screen and the tyranny of the in-flight movie by offering passengers a choice of viewing on individual video screens.

It will also mean a new source of revenue for airlines, which will be able to charge economy class passengers an extra fee to watch the latest films or play computer games.

It will also tempt passengers to do their duty-free shopping by choosing items from the screen and paying for them with a credit card swipe device rather than calling the flight attendant.

This opens up a new world of in-flight possibilities. Satellite data links will enable passengers to book hotel rooms, hire cars and send flowers; airlines will be able to use interactive screens to run instant customer surveys; passengers will be able to look up information about their destination; and video on demand will be a reality, with passengers selecting the programmes they want to watch, when they want to watch them.

Virgin Atlantic and United Airlines are both working on basic video interactivity. In Virgin's case, this means a £12m system designed by Hughes Avicom of California, which can provide 14 TV channels, plus video roulette, poker and fruit machine games and duty-free shopping with a credit card swipe.

United Airlines is developing a similar set-up using hardware provided by GEC/Marconi (at a cost of £65m) and software by Microsoft and Sony. Six TV channels, duty-free shopping and electronic games will be the main interactive ingredients when the facility appears on United's new Boeing 777 fleet some time next year.

Virgin's system is already operating. Installed in six of its 12 aircraft earlier this year, it has not been without teething troubles; but it is at least there, rather than merely promised.

Tests on British Airways' new in-flight system are not due to be held until early 1995, and installation throughout the fleet will have to wait until the end of that year. But BA argues that its system will offer the full range of interactive video facilities, not just some of them.

It will take time because BA – and any other airline hoping to offer a range of facilities of this complexity – will have to use the latest high-performance hard disc digital servers to process the vast quantities of information.

Digital servers are at the heart of it all. Their job is to parcel out material to each user as he or she wants it, remember which user is where in the programme and give him or her the right bits of material at the right moment.

A server system must be able to cope with all users choosing the same programme simultaneously as well as at different times (a digitised, compressed movie takes up about one gigabyte of hard disc for every hour of screen time), and be fault tolerant so that it can continue to deliver material even if a drive fails.

It must also be light and compact enough to fit into an aircraft, and must avoid high operating temperatures.

BE Aerospace of Irvine, California, is designing the BA aircraft installations, each one comprising four hard drive servers, with each hard drive holding 90 gigabytes of information. Other servers will be needed to handle such services as games, car hire and hotel information.

BA estimates that fully installed, the technology will cost around £80m. Every system will add about 2 tonnes to an aircraft's payload.

It is clear that this is not something that BA wants to rush into. In which case, will Singapore Airlines steal BA's thunder?

SIA is being coy about its plans, announcing, like Virgin and United, that the new year will see them offering a mix of fixed-schedule TV channels, destination information and catalogue shopping, and some games.

SIA is widely believed to have struck a deal with Micropolis, a California-based information storage and video systems company. Micropolis's claim to fame is that it has been supplying video on demand to hotels in the US for the past six months, using its own digital video server, the AV Server 100.

This is up and running in seven US hotels and already allows up to 32 viewers simultaneous access to 20 films. The technology can be tailored for airline use without having to compromise the equipment's basic specification.

Singapore Airlines may be least six months ahead of the pack and possibly more.

But this is not the end of it. Everyone is talking about using interactive video principally to access pre-recorded material, downloaded on to the aircraft before it takes off. But there will soon be the option of picking up digital quality live TV and other real-time information on an aircraft in flight – as demonstrated earlier this year, when a Swissair aircraft picked up a live CNN broadcast on a flight from Tokyo to Zurich.

This looked like a stunt: the broadcast was short and the capability to repeat the exercise is limited. But it is there, promising live news broadcasts, weather checks for your destination and all the local television viewing you can handle at 30,000ft.

This raises a further point: how much TV should an airline allow for, before the quality starts to evaporate? That may prove to be a tougher problem than all the technology put together.

Japan rocks steady

The Great Buddha of Kamakura was little moved by this week's earthquake in Japan. The 40ft statue on the outskirts of Tokyo rests on steel shock absorbers on a granite base, allowing it to move with the tremor.

Like the Buddha of Kamakura, many Japanese buildings today have special foundations which absorb tremors and allow the structures to dissipate quake energy by swaying. These devices include bearings made of rubber and steel, or layered steel and rubber between the building and its foundations.

This technology is used mainly in structures under 200m high. "Buildings taller than 30 storeys are able to move with the earthquake," says Yuichiro Ogawa, who manages Shimizu Construction's structural technology division.

The problem for designers now is to deal with the effects of swaying. The 36-storey Kasumigaseki building in central Tokyo, built in 1968, was the first high-rise to include "soft structure" technology, allowing the building's beams and pillars to vibrate with the quake. Further technological advances have led to skyscrapers more than 200m tall, but their flexibility means that strong winds and typhoons sway them to an uncomfortable degree, causing symptoms similar to seasickness and making high-rises unsuitable for residential use.

This has been eased by computerised vibration control systems. Strong winds cause computers to activate a large rectangular weight, supported by four pillars made of layers of rubber which move in the opposite direction to the building's movements. Shimizu's system – the first to be installed in a skyscraper of more than 200m, two years ago – passed its first big test in last week's typhoon, the strongest to hit western Japan this year. Other companies have developed and installed similar systems.

Shimizu said that the usual degree of fluctuation was reduced by two-thirds. Occupants of the building's apartments and hotel reported feeling hardly any swaying despite strong gusts of wind.

Emiko Terazono

The missing link

German researchers are helping US companies, writes Andrew Fisher

Germany's Fraunhofer institutes, which provide an important research link between universities and companies, are following industry's lead and moving into the export market.

The Fraunhofer-Gesellschaft (organisation), the largest applied research body in Germany, has set up a US offshoot to work with universities and help local companies develop advanced industrial technologies. It is also looking at ventures in south-east Asia.

Fraunhofer USA is the first foreign unit of the German organisation, which has a research volume of DM1bn (£420m) and employs nearly 8,000 people in 46 institutes.

"We took this step because economies are becoming more and more interlinked," says Hans-Jürgen Warnecke, president of Fraunhofer-Gesellschaft.

US technology experts say that despite the country's academic and technological resources, the transfer of technologies from universities for industrial use is limited. As in Germany, much of the efforts of Fraunhofer USA will be directed at smaller companies, with a strong emphasis on manufacturing.

"We want to work with the Fraunhofer model in the US because it has clearly proved to be a great help in promoting innovation in small and medium-sized companies," says John McTague, vice-president for technical affairs at Ford Motor Company and head of Fraunhofer USA's national advisory council, which met for the first time this week. United Technologies, Du Pont and BMW North America are also represented on the council.

Fraunhofer USA has its headquarters in Michigan, near the motor industry, which it expects to be an important client. One Fraunhofer institute, for computer graphics research, set up a laboratory in Rhode Island ahead of the foundation of the new US unit.

Fraunhofer USA has been given three years to gather enough contracts to pay its way. Until then, it will be financed by the parent company in Germany, which draws its funds from government, public sector and industrial research contracts.

Phone users box clever

Andrew Adonis on a device that offers UK long-distance callers new choice and new services

When Energis, the new UK long-distance phone company, launched its network last week it gave pride of place to two small boxes, one for residential consumers and the other for small businesses. These will make it easier for BT customers to switch to an alternative supplier as well as offering a range of services that Energis claims are new to the market.

For residential customers there is an Energis Box, 14cm by 8.5cm. Like a personal computer modem, the cable from the box fits into a standard BT phone socket at one end and into a standard telephone at the other. All long-distance calls made from the phone are automatically routed across the Energis network, while local calls continue to travel via BT.

This makes Energis simpler to access than Mercury, although the new company concedes that Mercury remains cheaper for some calls. With Mercury, the standard modes of access for residential customers are a blue button phone or prefixing long-distance numbers with the code 132.

The Energis box, however, can be fitted in seconds.

For small businesses, Energis has a multiline box for customers taking at least four lines. This routes all national calls over the Energis network and records all telephone use. Customers receive a monthly report that lists not only outgoing calls, but also the time taken to answer the phone by hourly averages, and the number of calls lost.

The multiline box is fitted by an Energis engineer. For customers with a branch exchange it will probably take the form of some software fitted directly on to the exchange.

The telephone management report facility made available by the multiline box is a first as a standard phone service for the small business. It is likely to be of great value to organisations as they plan their phone management. A recent report by the Audit Commission, the public sector watchdog, indicated that local authorities had reduced the unanswered calls to less than half as a result of telephone monitoring reports.

Many small businesses probably have no idea how many calls they are missing, let alone how long it takes them to answer the phone.

ARTS

If sentimentality were a crime, 'Forrest Gump' would be put away for life: Robin Wright and Tom Hanks in Zemeckis's latest film

Cinema/Nigel Andrews

Glamourised gormlessness

FORREST GUMP (12)
Robert Zemeckis

THE LION KING (U)
Roger Allers and Rob Minkoff

MINA TANNENBAUM (12)
Martine Dugowson

FUNNY MAN (18)
Simon Sprackling

Early in *Forrest Gump*, before its hero has grown into Tom Hanks, he is chased down a country road by school bullies. The braces on his legs – the boy is ill-developed physically as well as mentally – suddenly fly apart and free him to run like a sprinter.

For Forrest Gump read *Forrest Gump*. This 2¼-hour comedy/fable/history lesson must once have seemed the most handicapped project on the Hollywood lot: an epic hobble across post-war America with a holy fool for hero and a road paved, or potholed, with 40 years of national good intentions and national seizures (Dallas, Vietnam, Watergate). Our Forrest grows up into an Alabama Candide: a man around whom great events happen but who remains blithely unscathed and unimpressed by them all.

Would such a movie play in Peoria? Even the original novel by Winston Groom only sold 30,000 copies in hardback.

Commercially it has run like the wind: $270m at the US box office to date – it may topple *Jurassic Park* as the highest-earning film in history – and an entire nation besotted with Gump wit and wisdom. Like its innocent-messianic hero, who becomes an athlete and spends much of the movie jogging across the land as a torchbearer-without-torch for the human spirit, *Forrest Gump* the film has thrown aside its leg-braces and left footprints all over Clinton-era America.

Indeed Gump may *be* Bill Clinton, we (and others) opine. One of several ingenious trick-optical scenes has the backwoods boy shaking hands with JFK himself. And surely that was a favourite scene from the Clinton movie scrapbook too.

But like the man in the White House *Forrest Gump* spends a deal of time trying to be all things to all folk. Self-ingratiatingly, and for this viewer maddeningly, it blends the comic with the Christly, the satirical with the sentimental, the free-thinking with the fuddy-duddy. When Forrest overnights at the Watergate Hotel in the early 1970s, after a chat with Nixon (more state-of-the-art opticals), we chortle approvingly as he becomes the first man to blow the whistle on the "plumbers."

But only minutes before that we are watching him in Vietnam behaving like John Wayne in *The Green Berets*. As he runs back and forth through a napalm-blazing jungle, finally saving unit leader Gary Sinise, a nightmare war is turned into an arch cameo of Boy's Own heroism. Sinise will adorn the rest of the movie as a double amputee, providing a support paradigm – Gloucester to Forrest's Lear – of grace under pressure in millennial America.

But is it grace or just glamourised gormlessness? "Stupid is as stupid does" is one wisdom intoned by Hanks's dogged Southerner – his face puckered in sage earnestness, his vowels a lugubrious, elastic twang – as he proves that an IQ of 75 does not disqualify you as the moral hero of a nation.

Accident is destiny, destiny accident: that is the other saw that keeps buzzing. From the opening credits sequence, in which a feather drifts from the sky down to Forrest's shoe as he sits on a park bench hijacking strangers with his life story (a blend of E.L. Wisty and the Ancient Mariner), director Robert "Roger Rabbit" Zemeckis and screenwriter Eric Roth pile on the haphazard while steering Forrest unerringly towards fulfilment. He gets to love a woman (Robin Wright), an ex-flower child whom he saves from the hell of 1960s liberalism. He fathers his own child. He grows rich from the shrimping business.

He is, we begin to realise, America herself: that dear, untutored land that redeems itself by its innocence even when it creates tragedy by its ignorance. This rose-tinted mirror held up to the USA by the USA says, "If we have never truly grown up – never *do* grow up – nothing can truly be our fault." If sentimentality were a crime, *Forrest Gump* would be put away for life. As it is, it will probably be with us for life: the ultimate feel-good film in an age when no one any longer has the courage to feel bad.

★

Moviegoing in late-summer America has been a dangerous activity. Turn away from the idiot savant on the park bench and you will walk straight into the jaws of *The Lion King* ($250m and climbing).

But this option is more fun. Disney's new animation feature is its first ever based on an original screenplay and has a real freshness of setting and vision. The African wilderness shimmers across the wide screen – do *not* wait for the video – as the orphaned lion prince Simba grows up to dethrone his wicked uncle Scar (voiced by Jeremy Irons) who had his regal father run over in a wildebeest stampede.

We are all run over by this wildebeest stampede. From where I sat it started in the north-west speaker, surged down the side aisle, roared over the Empire screen towards Leicester Square, then rumbled out in the south-west speaker. Spectacle matches sound: thousands of dust-raising shapes shaking the desert as the camera-work soars and curvettes overhead.

The sequence lasts 2½ minutes and took two years to create. Jeremy Irons's voice for Scar probably took two hours and is just as splendid: a wicked George Sanders purr sliding up and down the scale of sarcasm like a cat on a polished bannister.

The film loses its magic towards the end, with a gaudy, hurried showdown. We miss the burnished charm with which the film sauntered round its early scenes. Here – and in the middle section where a hip meerkat and doleful wart-hog keep Simba company in the paradise valley of his exile – *The Lion King* matches the comical and painterly bravura of the great Disney cartoons.

★

Is there such a thing a feel-bad film today? *Mina Tannenbaum* ought to qualify, but by some proprietary charm formula fails to do so.

Mina (Romane Bohringer) is a plain, introverted Jewish girl, tormented by not having her best friend Ethel's vibrant social graces. Ethel (Elsa Zylberstein), also Jewish, is tormented because she does not have painter Mina's depth and artistic talent.

Stir in two passive-aggressive Jewish mothers – adding gall to a stew steeped in wormwood – and you have this drama of interconnecting female lives, bubbling and spitting across two caustically observed decades. Screenwriter Veronique Heuchenne and director Martine Dugowson make sardonically merry with the fashions of the 1970s: floor-sweeping trouser bottoms and hats like floppy stovepipes. Then they make menacing with the greedy 1980s, when ambition and love rivalry pulls the girlfriends apart.

We could cry "Woman's picture" and complain that emotion swamps action and that the men are pawns in a parable of sisterhood. But after the runaway patriarchalism of *Forrest Gump* and *The Lion King* – where woman's sole function is to be mettle-polisher to the dominant male – *Mina Tannenbaum* is a welcome reminder that half the planet has its own mind and will and hand on destiny's tiller.

★

Funny Man, a British horror comedy from first-time writer-director Simon Sprackling, is the week's booby prize. If you ever win a round of poker from Christopher Lee, make sure you do not accept his forfeit of an ancestral home. It contains a homicidal "joker" (Tim James, putty-faced up to resemble a Jimmy Savile from hell) whose delight is picturesquely to murder you and your friends.

Sliced heads; pierced eyeballs; electrocution; burning. All the fun of the *auto-da-fé*. And between murders the film returns to its normal idling state: a benighted, terminal catatonia. Wait for the video. And then keep waiting.

Alastair Muir

Energetic: Jude Law as Ion

Theatre/Ian Shuttleworth

Less classical than sitcom: the RSC's 'Ion'

To the classical Greeks, "comedy" simply meant any play which ended more or less harmoniously – without any high-born corpses or divine condemnations to speak of. Actual humour didn't come into it. To stage such drama in the present day is to walk a perilous line between the nature of the original material and current expectations of the genre.

The two first-ever professional English-language productions of Euripides' play opened this month. In a fortnight, the Actors Touring Company stages Kenneth McLeish's translation in Cardiff prior to a national tour, but first out of the traps is the director-translator partnership of Nicholas Wright and David Lan for the Royal Shakespeare Company.

Euripides' world view was far from clear cut: to him, morality shifted with changing circumstances and the gods had their own agenda, to which men and women were as flies to wanton boys.

One cannot help thinking that Wright and Lan's version of *Ion* would perversely appeal to the old boy, founded as it is on the notion that momentous events – a liaison between the god Apollo and a mortal woman, leading to the foundation of virtually the entire Greek race – can be recounted in the trite vocabulary of suburban sitcom.

Jude Law is cleverly cast as the temple servant of Apollo whose reunion with his mother forms the narrative core of the play. This energetic young man is not the stuff of legend: one minute he may be musing profoundly, "if the gods lie, how can we ever know the truth?", but the next – as a supplicant to Apollo's oracle has just been misinformed that Ion is his son – he is sending off over-enthusiastic and apparently suspect attentions with, "you wouldn't believe how often I have to put up with this... especially from foreigners."

As Ion gropes towards the truth of his parentage like a less-fraught Oedipus, Law conveys the confusion and extremity of emotion without lapsing into classical angst. He is supported in this tonal no-man's-land by Peter Guinness as his step-father Xuthus, an affable cove but not what you would call blessed with diplomacy.

The women on stage are more unambiguously earnest, but sometimes seem a little too far gone. When Creusa (Diana Hardcastle) plots the murder of Ion before discovering that he is her own child, Wright and Lan fail to integrate the scene's cut-price Medea-isms with the overall dramatic curve of the play. Also awkward is the presentation of speeches by the seven-strong chorus of Creusa's maidservants; after a promising beginning as a kind of Women's Institute tour party, they fall into a habit of what can best be described as synchronised writhing. Greek choruses are always a devil to stage in modern productions; suffice it to say that this particular option is less than triumphant.

However, the dominant note of the production remains its determined anti-nobility. The gods and their doings are held up not to ridicule but to chuckles of banal recognition, and Euripides' lines are rendered in a style not unlike a kind of ancient Athenian Galton & Simpson.

At The Pit (Royal Shakespeare Company) (071-638 8891).

Dance

A 'Giselle' of integrity

Fighting the good dance fight, London City Ballet is embarked upon its autumn schedule of touring round the country. Denied the full subvention from the Arts Council that its work and its attainments should merit, LCB goes indomitably on. It is sustained for this season by ADT, who deserve the thanks of those many audiences – LCB gives about 200 shows each year, vastly more than certain other funded troupes – who would otherwise not see ballet.

I admire LCB for its terrier-like persistence, but even more because its performances are so whole-hearted. The repertory is middle-brow, but then, so is much of its public. Its productions are not articles of *grand luxe*, but wild expenditure has little merit, as we know from some of the Royal Ballet's extravagant mishaps. (Remember *Cyrano* and *Don Quixote*). LCB strives to give its public the best that wit and necessary cheese-paring ("blessed poverty" said Karsavina of Rambert stagings in its earliest days) can provide. The result, as I saw in the *Giselle* which is this autumn's touring fare, is pleasing.

The staging is by Galina Samsova, made for the company nearly a decade ago. It is sound, un-pretending, telling the story and honouring the old choreography with decorum. Peter Farmer's setting is sensitive, and in the well-lit forest-scene, properly mysterious. Reduced for an ensemble of 35 dancers, the drama is honestly set out, and the supporting roles are played with an integrity that some larger companies might envy. (Beverly Jane Fry is a fine Bathilde, charming, but aware of her nobility; Gary Shuker is a Hilarion who wins our sympathy). Standards of dancing are variable, but nothing is cheated. And in Kim Miller, whose interpretation I saw on Tuesday night, LCB has a remarkable Giselle.

I reported on Miss Miller's debut in the role when this production was new. We now see a performer of beautiful and mature artistry. She has always been an expressive dance-actress, thrown to the wolves on occasion, as in the mad *Traviata* LCB produced a few years ago, but true in whatever she has done. As Giselle, her every best gift is used. The first act peasant is trusting, gentle, her gaze ever turned to Loys (the sincere and credible Roger van Fleteren). Betrayal brings pain that is like his sword to her heart – this Giselle is piteous as she turns in accusation on Loys/Albrecht – and then comes madness, shown by Miss Miller with absolute and absolutely touching clarity.

Her performance is the motor force of the piece, and she makes the Romantic fervours of the second act very lovely. Physically, she has the melting arms, the softness of phrasing, that were so fascinating with Lynn Seymour in this role, and as with Seymour, everything she does has meaning. Her Wili-Giselle is a study in compassion set in long, creamy sequences of movement. The variation was exquisite in shape – the outline of the foot and the musical lift to the steps its especial distinction. The duet (van Fleteren a devoted partner) was emotionally and physically true. Miss Miller is a Giselle of real authority and real grace.

I liked Roger van Fleteren's Albrecht, and I liked him most as he responded to his Giselle in the second act – the old story became urgent again. The attendant wilis were well-schooled. The performance, and here is the value of LCB's policies, stimulated and delighted its audience. *Giselle* is given with a neo-classic curtain-raiser, Vincent Redmon's *Counterbalance*. It involves two Vivaldi violin concerti, and steps as scratchily active. The cast look as if they are trapped in a spin-dryer.

Clement Crisp

London City Ballet is in Bromley until the end of this week, then tours to High Wycombe, Croydon, Brighton until the end of November with *Giselle*. Sponsorship for the year is given by ADT.

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tomorrow, Sun, next Tues: Alexandros Myrat conducts Michael Cacoyannis' production of Mozart's La clemenza di Tito, with cast including David Rendall, Kathleen Cassello and Diana Montague. Oct 16, 17: Isaac Stern violin recital. Oct 23, 24: Kurt Masur conducts Leipzig Gewandhaus Orchestra (01-728 2333/01-722 5511)

■ BOLOGNA

Teatro Communale Tomorrow, Sat: Lü Jia conducts Orchestra of the Teatro Communale in works by Giacomo Manzoni, Ivan Vandor and Brahms/Schoenberg, with cello soloist Siegfried Palm. Next Sat and Sun: Giuseppe Sinopoli conducts Beethoven's Ninth Symphony. The opera season opens on Nov 26 with a new production of Rossini's Il turco in Italia (051-529999)

■ LONDON

THEATRE

● The Venetian Twins: a transfer from Stratford of Ranjit Bolt's new RSC version of Goldoni's 18th century Italian comedy, directed by Michael Bogdanov. Just opened (Barbican 071-638 8891)

● The Sisters Rosensweig: Michael Blakemore directs Maureen Lipman, Janet Suzman and Lynda Bellingham in Wendy Wasserstein's Broadway hit comedy about three American Jewish sisters who have a mid-life reunion in London (Old Vic 071-928 7616)

● The Playboy of the Western World: J.M. Synge's dark, cruel Irish comedy, in a brilliantly perceptive production directed by Lynne Parker (Almeida 071-359 4404)

● The Seagull: Judi Dench heads a splendid cast in Pam Gems' new version of the Chekhov play. In repertory with a new production of The Devil's Disciple, Shaw's 1897 satire on melodrama (National, Olivier 071-928 2252)

● Moscow Stations: Tom Courtenay returns to the West End in the British premiere production of Venedikt Yerofeev's one-person play - a modern Russian tale about the rich life of an alcoholic who stumbles and dozes his way through a series of surreal adventures. Previews begin tomorrow, opens on Tues (Garrick 071-494 5085)

● The Winslow Boy: Peter Barkworth is ideally cast as the stiff upper-lipped father battling Whitehall to prove the innocence of his son, who has been expelled from naval college. A well-made production of Terence Rattigan's well-made 1946 play (Globe 071-494 5065)

● What A Performance: the title recalls the catchphrase of Sid Field, the talented comedian who died in 1946 of a heart attack at the age of 45. David Suchet of Poirot fame dons a cheeky grin in William Humble's biography that relives Field's best sketches and backstage life (Queens 071-494 5040)

● The Slab Boys Trilogy: the first London revival since 1982 of John Byrne's comic trilogy, which follows the lives of three Paisley boys from desperate youth to despairing middle-age. The three plays can be seen individually or as a complete package on certain Saturdays (Young Vic 071-928 6363)

● Once on this Island: a special Caribbean environment has been created at the Royalty for Lynn Ahrens and Stephen Flaherty's fairy-tale musical about a peasant girl's doomed love for an aristocrat (The Island Theatre at the Royalty 071-494 5090)

● She Loves Me: the charming 1963 Masteroff, Bock and Harnick musical about two longtime pen pals who don't know they work in the same parfumerie. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-836 8888)

OPERA/DANCE

Coliseum English National Opera's new staging of Massenet's Don Quichotte opens on Sat. Emmanuel Joel conducts, Ian Judge directs, and the cast is headed by Richard Van Allan, Louise Winter and Alan Opie (runs till Nov 9). Rosalind Plowright stars in Tosca (till Oct 27), and Nicholas Hytner's production of Die Zauberflöte is revived on Oct 20 (071-836 3161)

Covent Garden The Royal Opera has a much-praised revival of La Cenerentola with Olga Borodina, Raul Gimenez and Simone Alaimo (final performances tonight, Sat, next Wed and Sat). New productions of Das Rheingold and Die Walküre open next Thurs and Fri, staged by Richard Jones and conducted by Bernard Haitink, with cast headed by John Tomlinson, Ekkehard Wlaschiha, Robert Tear, Poul Elming, Deborah Polaski, Ulla Gustafson and Jane Henschel. The Royal Ballet returns on Nov 3 with Anthony Dowell's new production of Sleeping Beauty (071-304 4000)

Sadler's Wells Cumbre Flamenca, a touring Spanish flamenco group, is in residence till Sat. Oct 11-15: Brazilian dance company Grupo Corpo (071-278 8916)

Blackheath Concert Halls Kent Opera's production of Britten's The Prodigal Son can be seen next Tues (081-463 0100)

CONCERTS

Barbican Tonight: Michael Tilson Thomas conducts London Symphony Orchestra and Chorus in Mahler's Third Symphony. Tomorrow: Anne Sophie Mutter violin recital. Sun, Mon: Tilson Thomas conducts LSO in Mahler's Fourth Symphony (Renée Fleming), Feldman's The Viola in my Life (Yuri Bashmet) and the world premiere of John Tavener's The Myrrh-Bearer. Next Thurs: Tilson Thomas conducts Mahler's Fifth (071-638 8891)

South Bank Centre Tomorrow, Sat, Sun: Shirley Bassey. Tomorrow at 5.30pm in QEH: Peter Schreier sings German Lieder. Tomorrow at 8.15pm in QEH: Andrew Davis conducts BBCSO in works by Magnus Lindberg and Berlioz, with mezzo Ann Murray. Mon: Andrew Davis conducts BBCSO and Philharmonia Chorus in Berlioz's Te Deum and world premiere of Kaija Saariaho's Du Cristal. Tues: Neville Marriner conducts Academy of St Martin in the Fields in works by Mendelssohn and Schumann, plus world premiere of Sally Beamish's Walking Back. Wed: Leonard Slatkin conducts Philharmonia Orchestra in Mozart, Previn and Mahler, with soprano Kathleen Battle. Next Wed (QEH): Steven Isserlis and friends in an evening of words and music entitled The Life of Schumann. The South Bank has a variety of events this month focusing on the theme of The Romantic Spirit in German Art 1790-1990 (071-928 8800)

■ MILAN

Teatro alla Scala Tomorrow, Mon, Tues: Zoltan Pesko conducts orchestral works by Beethoven and Petrassi, with piano soloist Rudolf Buchbinder. Oct 14: first of five performances of Gilbert Deflo's staging of Monteverdi's L'incoronazione di Poppea, conducted by Riccardo Muti. The October programme also includes concerts by Ruggero Raimondi, Francisco Araiza and the London Symphony Orchestra under Georg Solti (02-7200 3744)

■ PRAGUE

Dvorak Hall Mon: Josef Suk is viola soloist in a chamber recital by Wihan Quartet, featuring works by Smetana, Taneyev and Dvorak. Tues: Prague Wind Quintet with pianist Daniel Wiesner. Wed: Czech Trio plays piano trios by Martinu, Ravel and Dvorak (02-2489 3352)

■ ROME

The Auditorio di Via della Conciliazione has been refurbished for the 1994-5 season of concerts by the Orchestra dell'Accademia Nazionale di Santa Cecilia. Pierre Boulez and the Ensemble InterContemporain open the chamber music series on Mon, and the subscription series of orchestral concerts begins on Oct 15 with a Bach and Stravinsky programme conducted by Daniele Gatti. Visiting soloists in the pre-Christmas period include Barbara Hendricks, Krystian Zimerman, Vladimir Spivakov and Cecilia Gasdia. The conductors' roster includes Myung-Whun Chung, Georges Prêtre, Christian Thielemann, Gennady Rozhdestvensky and Carlo Maria Giulini (06-6880 1044)

■ TURIN

Teatro Regio The 1994-5 season opens on Oct 16 with Donizetti's L'elisir d'amore. The season also includes Donizetti's La fille du régiment, The Nutcracker, Britten's A Midsummer Night's Dream and The Turn of the Screw, Verdi's Simon Boccanegra and Jérusalem, Mozart's Mitridate and Puccini's Gianni Schicchi and Tosca (011-8815 241/011-8815 209)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Private motives of a public man

BOOK REVIEW

VIRGIN KING – Inside Richard Branson's Business Empire
By Tim Jackson
Harper Collins, £17.50, 383 pages

When Richard Branson, the founder of the Virgin group, was preparing to cross the Atlantic in a hot air balloon in 1987, he came across a television station's video monitor running his obituary.

The station was demonstrating no more than prudence: the Atlantic crossing almost ended in disaster when Branson's balloon ditched in the sea off Ireland.

Branson, 44, has since forsworn dangerous sports, and the obituaries spawned by his penchant for life-threatening exploits remain in the archives.

Few of them, in any case, would have offered great insight into the private Branson. Tim Jackson, a journalist who writes for the Independent, has tried to fill the gap with a book that attempts to answer the question: what is Richard Branson really like?

The principal facts of Branson's business life are well-known: he created one of the world's leading music companies, which he later sold for £560m; an airline, Virgin Atlantic, which attracted much attention; and several other businesses, including a worldwide record retailing chain.

More difficult to capture are the many contradictions that surround him. Of the three young British entrepreneurs who rose to great prominence during the 1980s – the others being Alan Sugar of Amstrad and Anita Roddick of Body Shop – Branson remains the most difficult to understand.

Sugar trod the path from Jewish working class to entrepreneurial success which many others had walked before. Roddick is currently fighting off allegations that she has not lived up to the ideals that motivated her and her company. There has never been any doubt, however, what those ideals are: respect for the natural environment and for human rights, and opposition to cruelty to animals.

What motivates Branson has never been clear. He seems to embody the libertarian ideals of the 1960s, appearing in the most august company without a tie. He lived on a houseboat and promoted the sale of condoms. Yet he was a favourite of Margaret Thatcher.

His talent for publicity is notorious. He launched his airline dressed in an old-fashioned leather flying helmet and goggles. He submitted his unsuccessful application to run the UK national lottery in the company of a horse.

Yet for all the apparent love of attention, the private Branson finds it difficult to look people in the eye. He is surprisingly inarticulate. If the idea were not so ludicrous, one would think he was shy.

Tim Jackson's book is filled with such puzzles.

Branson has used his vast wealth to buy a Caribbean island. He flew a pair of Balinese craftsmen to his Oxfordshire home to build a cricket pavilion in the style of a traditional temple. Yet Branson seemed not to notice that the paint was flaking off the back of his Holland Park home.

When Branson decided to cross the Pacific in a balloon, he paid £87,000 for Shinto priests to bless it before departure. But he quibbled with Per Lindstrand, who piloted the balloon, over a bill for £150.

The book has its rough edges. The collapse of Air Europe is thrown into the narrative without any explanation for the non-expert reader of its relevance. Jackson recounts a row about the Social Democratic party between Branson and a dinner guest, but frustratingly omits to say which side Branson took.

Overall, however, it is an admirable biography. Parts make gripping reading: the balloon expeditions, the struggle to establish the airline and British Airways's dirty tricks campaign against it.

But does it bring us any closer to the real Branson? We understand his business style better by the end: his determination to make new ideas work and his need to move on to something else when they have. As to the person, the conclusion has to be that there is no resolving the contradictions: they are part of the man.

What is clear is that, if anyone is going to explain who Branson is, Branson would prefer to be the one who does it. One of the reasons he took the group private after floating it on the London Stock Exchange was that he disliked having what he saw as ill-informed stockbrokers' analysts commenting on it.

He initially refused to co-operate in the writing of this book. When Jackson decided to go ahead anyway, however, Branson met him for long and detailed interviews and encouraged his friends and colleagues to do the same.

According to Jackson, Branson later changed his mind and decided the book would be biased against him. Branson was then offered the chance to read the manuscript and correct mistakes, on condition that he did not send his lawyers in afterwards.

Branson's solicitors told him to reject this offer. As Jackson makes clear, Branson always pays for the best legal advice. Any lawyer who advised him to waive his right to legal action before he knew whether the book contained anything defamatory would not be worth his fee.

There is much for him to dislike in this book. Some youthful indiscretions, including a near-prosecution by the Customs & Excise, are not new. More hurtful will be the views of Virgin Music employees who worked for the company for years, but had no shares to cash in when it was sold.

Yet Jackson clearly admires Branson for his energy, his originality and his regard for people often ignored by other business leaders: women, clerks, cleaners, customers.

Jackson's conclusion that, despite Branson's apparent lack of political convictions, he could emerge as a British Berlusconi, appears to be a lapse from his usual sceptical standards of judgment. But then the sceptics sneered at the idea that anyone could get an airline flying four months after being presented with the idea – and that is exactly what Branson did.

Michael Skapinker

Helicopter makers in a spin

Bernard Gray on the fierce international competition to win a large UK defence order

The British army's plans for a new fleet of attack helicopters have generated the competition of the decade for the world's aerospace manufacturers.

The £2bn order for 91 helicopters – to be decided next spring – is likely to be the largest helicopter purchase in the world for at least the next five years.

As the UK Ministry of Defence last week took final bids for the order, it was shaping up as a fierce contest between some of the world's largest aerospace companies. The winning bid will be expected to offer a fixed price for the contract and assurances that much of the work will go to UK industry.

Military planners in the US, and now in Britain, see attack helicopters as essential to the armed forces of the future, with tanks and helicopters becoming the main battle zone weapons.

A new fleet of attack helicopters, now the British army's highest priority, will allow high mobility and flexibility of response from bases at the rear of battle zones to targets far behind enemy lines.

Attack helicopters established their value in the Gulf war. McDonnell Douglas, the US aircraft manufacturer, proudly boasts that its Apache attack helicopter fired the first shots in the allied attack on Iraq, destroying radar installations to allow stealth fighters to fly unobserved to Baghdad.

In futuristic scenarios, attack helicopters are seen as essential to protecting British tanks from well-equipped enemy armour. Lurking behind cover a mile or so from the main action, helicopters will be able to pick up advancing enemy tanks with their sensors, loose off a salvo of missiles, and dive for home before the enemy commanders know that they are being watched.

In placing the contract for the UK fleet of helicopters, the MoD is looking for three characteristics in the winning bid.

First, companies must offer an "off-the-shelf" product which is already in service with armed forces elsewhere. This will avoid the time and expense of developing an attack helicopter specifically for the UK.

Second, bidders must agree a fixed price for the contract, so that the risk of cost overruns is born by the contractor rather than the taxpayer.

Third, potential suppliers will be expected to place as much of the work on the helicopters in the UK as possible. As well as proving the military worth and cost-effectiveness of their products, bidders have to outline what level of involvement UK industry will have in production.

Four main competitors are attempting to win the contract.

The favourite is the Apache, some 800 of which are already in service with the US army. With its proven service record and firepower, it is the helicopter favoured by the British army.

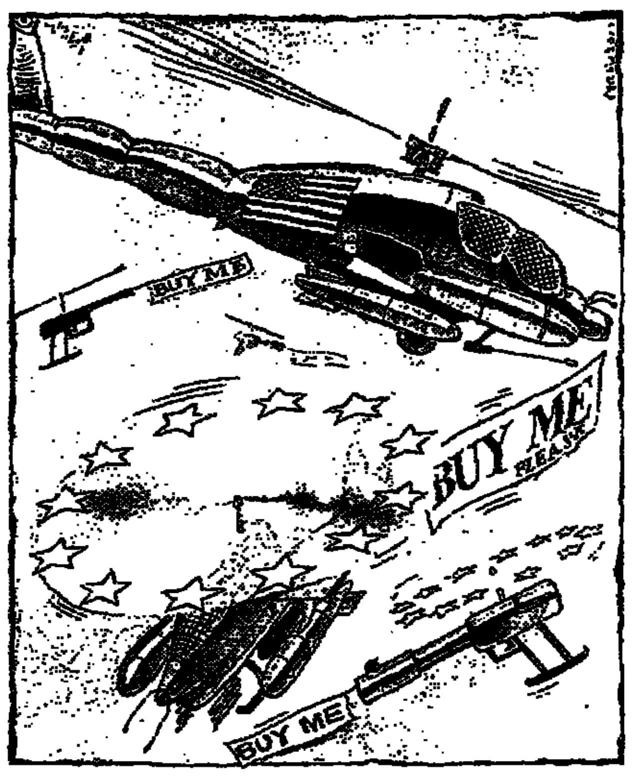
A large helicopter, Apache can carry a heavy load of anti-tank missiles. It will be equipped with the new sophisticated Longbow radar, which is currently under development by US defence companies Martin Marietta and Westinghouse. Longbow allows the pilot to identify a target such as a tank from cover, lock a missile on to the target, and move away as soon as it is fired.

The Apache bid is led by Westland, the only UK helicopter manufacturer. Westland would make the helicopter – and bear the risks of the fixed-price contract – under licence from McDonnell Douglas.

Westland's chairman, Mr Alan Jones, says that more than half of the £2bn contract will be placed directly with British companies. The Apache team would also place a further £1bn of contracts on other aerospace projects as indirect "offset" work with UK industry.

The main European competitor is the Tiger, designed by the Franco-German Eurocopter group. Tiger is a lighter helicopter than the Apache and is still under development for the French and German armies. Its main armament is the Trigat anti-tank missile, developed by Britain, France and Germany.

British Aerospace is the main UK participant in the Tiger bid. If the bid succeeds, BAe will get 20 per cent of construction work for all the 500 Tigers expected to be sold in Europe. BAe claims that this,



combined with the value of its contribution to the Trigat missile, would bring high-technology work for British companies worth more than the full value of the attack helicopter fleet.

The company also says that the Tiger's new design means that it will have much lower running costs than its competitors, which are based on older technologies.

Military planners see attack helicopters as essential to the battle of the future

The other large UK defence contractor, GEC, is also fielding a bid. Its candidate is Venom, an updated version of the Cobra, a veteran of the Vietnam war built by Bell, another US helicopter manufacturer.

It, too, is a light helicopter, acknowledged by GEC as offering less in performance than the Apache. But Venom has cost on its side: a Venom helicopter may be only two-thirds the price of an Apache and, says GEC, it will be substantially cheaper to run.

The wild card in the competition is the South African Rooivalk, made by Denel, a subsidiary of Atlas, the state-owned arms manufacturer. Rooivalk entered the competition late, and was not taken seriously at first. However, its brute strength means that it can carry heavy loads and has won admirers. The aerospace company Marshalls of Cambridge would act as prime contractor for the UK.

Plenty of mud has been slung in the fight to win the UK contract.

Opponents of the Apache say that it has proved expensive to maintain in the past and that the US government will not share details of the state-of-the-art Longbow radar with the UK.

The Tiger is criticised for being too light for the job, as expensive to buy as the Apache and of unproven technology. The Venom airframe is said to be too old, while development work on a new cockpit leaves its real cost uncertain.

Rooivalk, meanwhile, is also based on an ageing design and comes from a country which is going through enormous political change. The MoD will want to be certain that the order can be completed and maintainance continued over the life of the fleet.

Despite their competing merits, the Apache remains the hot favourite. The large number in service with the US army and the heavy weapons load it can carry argue strongly in its favour.

Politically, it may also be attractive. Giving the order to Westland, which is based in the south-west of England, might help Conservative MPs defend their seats against the advance of the Liberal Democrats.

Even the Apache's main drawback, cost, may be reduced by the pressure of competitive bidding. Westland – like all the bidders – will have to provide the MoD with extensive guarantees capping the maintainance costs of the aircraft.

There is, however, one obstacle that could trip up the Apache. The UK is currently holding another competition to replace the RAF's ageing fleet of Hercules transport aircraft. This involves a bitter battle between Lockheed, the US manufacturer of the latest generation of Hercules, and BAe, which is offering the Airbus-produced Future Large Aircraft.

If the MoD buys the Lockheed Hercules as it originally wanted, there will be a huge outcry from the UK manufacturers about buying American rather than European equipment. To soften the blow, the MoD might be tempted to award the attack helicopter to the European Tiger.

That would not please Westland, and would not be the outcome BAe was looking for either.

"My feeling," said one executive involved in the competition, "is that buying Hercules and Apache will be one American purchase too many for the MoD."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Deserving shelter project

Mr Michael Jackaman.

Sir, I read with interest the article by Andrew Taylor highlighting the problems of obtaining empty premises as temporary winter shelter for the homeless ("Shelter is sought for winter homeless", September 28). Allied Domecq (formerly Allied-Lyons) was very glad to have been able to provide some accommodation for this scheme over the past couple of years. Indeed, we very much regret that we are unable to do so again in 1994.

I recognise that many companies may have misgivings about lending their premises for such a project. However, I can assure them that the shelter at our premises was extremely well organised and any problems in making the building habitable were minimised with help from Crash (Construction Industry Relief & Assistance for the Single Homeless).

I would urge the leaders of business in London to trawl their organisations to find suitable premises that can be offered for this deserving scheme. If anyone wishes to learn more about our experience, I would be delighted to hear from them.

Michael Jackaman,
chairman, Allied Domecq,
24 Portland Place,
London W1N 4BB

Japan talks and does nothing

From Mr Thomas Flannigan.

Sir, I disagree with your editorial, "Back from the brink" (October 3) – in the wake of yet another agreement that purports to open Japan's markets – where you urge Japan to "table this weekend's concessions to the Gatt". You also tell Japan to "demand that the US seek to resolve any future bilateral trade differences through negotiation in the World Trade Organisation".

The US has hauled Japan before the General Agreement on Tariffs and Trade three times in the last six years, and won each time. Japan has simply ignored the rulings, and pursued a ruthlessly protectionist trade policy, bolstered by the cheers of many English publications, including your newspaper. It is curious that you should constantly side with Japan and urge the US to seek a remedy that has proved to be worthless.

Japan has "opened" its market dozens of times, but it still keeps the foreigners out, and laughs all the way to the bank. Japan's strategy is to keep the US talking and talking until it is so deeply in debt that it does not matter what the US says about trade.

Thomas Flannigan,
Three First National Plaza,
Suite 3950,
Chicago Illinois 60022, US

No escape from nominee accounts

From Mr A D Levaggi.

Sir, When the third tranche of British Telecom shares was offered to the public, priority was given to those investing through a Share Shop.

Those who purchased BT3 in this way (perhaps to augment their holdings in BT1 and BT2), found themselves locked into a separate nominee share account from which there is no *escape. To sell shares acquired* in this way would involve loss *of the share bonus.*

The Share Shops offered Pep facilities for BT3 shares without initial charges, but even the maximum number possible allocated to an individual hardly made the exercise worthwhile in view of subsequent charges.

The new offer of the remaining electricity generators' *shares is through Share Shops* only. Hence, existing holders of *National Power and PowerGen* shares (as well as new investors) will find themselves lumbered with holdings in *two* unwanted nominee share accounts from which, again, there will be no escape.

David Levaggi,
4 Grosvenor Street,
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BL9 9BJ

Surprising view from land of the back extension

From Mr Richard Wentworth.

Sir, Colin Amery warns us against architectural competitions ("The tyranny of the few," September 23). Seen from afar (an aircraft over Switzerland, *as it happened) I could* only smile that his cautionary lines come from a country where a "new" building is still a supermarket parading as an oast house, usually close to a (genuinely) new motorway.

Two of the projects he warns against, the reorganisation of the South Bank and the rede*sign of a disused* power station for a new Tate Gallery, are in the English tradition of conversion and adjustment. In a culture devoted to back extensions and knocking through I imagined Amery would have admired the inherent modesty of these two projects. Instead, he seems afraid of their possible modernity. Oh England!

Richard Wentworth,
Helmstedterstrasse 27,
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Share options debate confuses separate issues

From Mr David Tuch.

Sir, There is a danger in the current debate on executive *share options of confusing* three separate but distinct issues.

First there is the "value" of the option at the time it is granted. In theory this should be a measure which reflects how much a third party would be willing to pay for the option. Most valuation models rely on making certain assumptions about the company which, arguably, means at best they produce a theoretical value, there being no market in executive options.

Second, there is the benefit which the executive obtains if and when he exercises his option. "Headline" figures often overlook the fact that the executive will only benefit if shareholders also benefit. The *raison d'être* of options is to *enable the holder to benefit* from an increase in share price without having, initially, to purchase shares. Provided the executive is granted an option over an "appropriate" value of shares, then the real question is what performance target should be attained before the option can be exercised. Our survey of quoted companies, results of which will be published shortly, will provide insight into this area. The size of the gain should simply reflect how successful the executives are in creating value for shareholders.

The third issue is the cost to the company and the shareholders. This is where the real confusion starts. If the option is never exercised, there will be no cost. Similarly, to assume the cost is the gain on exercise assumes that the marketplace accurately adjusts the price of shares to reflect the dilution. It also ignores any possibility that the very granting of the option might increase a company's value.

The debate should be whether options are the most appropriate method of *offering* an incentive to executives to increase shareholder value. The increasing use of restricted share schemes suggests that options are not the only solution.

David Tuch,
tax partner, Peat Marwick,
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London EC4Y 8BB

Other side of the link

From Dr M E R Robinson.

Sir, I note ("Universities plan business links", September 30) that the universities are to appoint chief executives to help build links between higher education and the private sector.

As someone who has worked in industrial R&D, I suggest that, in addition to the longer-*term links associated* with the sponsoring of MSc and PhD students, they also promote ways of allowing companies access to university knowledge and facilities on a shorter-term, more flexible basis.

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FINANCIAL TIMES
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Thursday October 6 1994

Brussels' foot on the brake

In proposing to renew the block exemption of motor industry distribution practices from EU competition law, the European Commission says it aims to balance the interests of all involved. But that balance remains tilted far too heavily in favour of producers, at the expense of the interests of consumers and economic efficiency. Furthermore, the Commission's approach raises disquieting questions about its attitude to the single market.

Yesterday's decision preserves the central principles of the existing exemption. Manufacturers will continue to be able to choose which dealers they supply and to limit them to selling only one brand at one location, while permitting dealers exclusive franchises within designated territories. Most of the amendments proposed amount to tinkering, not fundamental reform.

Some merely formalise practices already common, notably in the UK. They include the right of dealers to stock competing brands at separate outlets and to advertise outside their franchise territories. Other changes seek to tackle some of the more pernicious abuses of the existing regime. For instance, Brussels aims to loosen manufacturers' monopoly over spare parts and to reduce obstacles to cross-border car purchases, repeatedly blamed by consumers' organisations for creating gaping differences in car prices across the EU. However, many of these obstacles are already supposed to be illegal. Brussels' failure to correct them in the past inspires little confidence that the new rules will be enforced any more vigorously.

Radical approach

A much more radical approach was needed. The commission should have started by questioning the scope of the exemption. It was originally granted on the grounds that cars are complex products which require big investments in after-sales service facilities. Yet it also extends to new vehicle sales. No convincing economic case has been made for treating the two businesses as one. Doing so impedes efficiency by encouraging cross-subsidies between them.

Equally, continuing restrictions on multi-brand dealerships deter innovation in retailing and deny car-buyers the convenience of comparing a wide range of competing models in one showroom. Abolishing these curbs need neither affect manufacturers' power to discipline wayward dealers, nor lead to unhealthy concentration of distribution, provided competition policy were applied effectively.

Probably the proposal's biggest weakness, however, is that it relies too much on vaguely-worded prohibitions of abuses by manufacturers. It would have been far more effective to have spelt out clearly specific rights to which consumers were entitled. Nowhere is this more so than in the freedom to take advantage of price differentials by shopping across borders.

Price convergence

Price convergence is one of the crucial tests of a unified market. Car manufacturers have long protested that it has not been achieved because of currency fluctuations and differences in national taxes and costs. But their argument is perverse. Only when producers are compelled by strong cross-border competition to treat Europe as one market will there be effective pressure to abolish regulatory and fiscal obstacles. That is the central purpose of the EU single market programme.

The Commission's timid remedies to the obvious flaws in the block exemption suggest that it is reluctant to subject Europe's biggest manufacturing sector to the logic of the single market. Its hesitation is not altogether surprising. For Brussels is itself engaged in the business of using the exemption to manage trade in cars within the EU.

The exemption provides the commission with a convenient backdoor way to limit free trade in Japanese cars between individual EU countries. Brussels defends these import controls as a necessary evil, insisting that they were the price for getting governments to agree to open the EU market fully to competition by 1999.

But the Commission has also paid a heavy price by colluding in such practices. By doing so, it calls into doubt the sincerity of its commitment to free competition in the car industry and diminishes its authority to enforce single market rules on recalcitrant EU member states.

Berlusconi on the brink

The end of the beginning, or the beginning of the end? Just a week after the Italian government issued a signal of hope by agreeing tough action on pensions and health reform in the 1995 budget, new and darker clouds are starting to gather around the figure of Mr Silvio Berlusconi.

Yesterday's row between the Italian prime minister and Mr Francesco Saverio Borrelli, a senior Milan anti-corruption magistrate, brings to a head five months of simmering discord between Mr Berlusconi's government and an independent-minded judiciary. It exposes anew some of the contradictions in Italy's attempts to produce judicial solutions to deeply-entrenched problems of corruption.

On a wider level, the clash raises fresh doubts about the credibility of the country's efforts to establish a stronger and less self-serving political system. Against the background of rising anxiety on international financial markets about Italy's public debt mountain, the prime minister's hold on power appears increasingly uncertain even though his election triumph was as recent as last March. And there is no sign of a successor better qualified to deliver the stability Italy requires.

Mr Berlusconi took office with a strong mandate to improve the standards of Italian leadership as a means of putting the country's political and economic structures on to a sounder footing. Although his objectives may have been worthy, his execution so far has been poor. He has failed to bring about the most elementary, and arguably the most important, precondition for accomplishing his goal: clearing up the conflicts of interest inherent in his position as head of the Fininvest media group.

Extraordinary criticism

In his interview with the Corriere della Sera newspaper yesterday, Mr Borrelli dropped a broad hint that one trail being followed by corruption investigators may lead to Mr Berlusconi's own door. The Milan prosecutor said an investigation into alleged irregularities at a pay TV company in which Fininvest is a shareholder risked reaching "high levels in financial and political circles".

Mr Borrelli's extraordinary criticism both of Mr Berlusconi and Mr Alfredo Biondi, the justice minister, may have been ill-judged. The episode will add momentum to growing complaints in Rome of the politicisation of the judiciary. However, when Fininvest is the subject of at least seven lines of judicial inquiry, the prime minister cannot pretend that strong language from the magistrates comes as a surprise.

Unpredictable outcomes

The forcefulness of the intervention from Milan leaves Mr Berlusconi with two broad avenues for action, both of them unpalatable, and with unpredictable outcomes. The first would be to raise the stakes still further in the battle with the magistrates, a consequence that would certainly stem from realisation of yesterday's government threat to take legal action against Mr Borrelli.

Given the passions already aroused by more than two years of corruption scandals, turning Mr Borrelli into a martyr would not only heighten the danger of a break-up of Mr Berlusconi's coalition. It could also deliver a fatal blow to the chances of bringing to a just and even-handed conclusion the many judicial corruption inquiries dogging a large number of senior Italian corporate and public figures.

The second option would be for Mr Berlusconi at last to take convincing steps to clarify the questions surrounding his stewardship of Fininvest. He could offer investigating magistrates full help in clearing his name from any suspicions of impropriety, and at the same time adopt decisive measures to separate his activities in government from those of his media company.

Last weekend's move by president Oscar Luigi Scalfaro to forestall the government's attempt to increase fees paid by the Rai state broadcasting group reinforced the widespread impression that the government's decisions are not always impartial. Mr Berlusconi must now act to show that he places the interests of his country above those of his business. Unless he assuages these doubts, Italy's political and financial uncertainties will grow.

Germany's small parties hold the Kohl government's future in their hands, say **Judy Dempsey** and **Quentin Peel**

Still much too close to call

GERMAN ELECTIONS
October 16

"This time," says the general election poster for Germany's liberal Free Democratic party, "everything is at stake." That could be painfully true for the FDP, the centre party of German politics and kingmaker in almost every coalition since 1949. In the general election on October 16, the party is in danger of being voted out of the Bundestag, the lower house of Germany's federal parliament, for the first time since the foundation of the federal republic 45 years ago.

Yet the message of the poster means much more. This is the first election in an integrated, united Germany, with all the parties competing for votes in east and west under the same rules.

The last election in 1990, immediately after unification, was carried out under special rules to ensure that the newly-enfranchised easterners were adequately represented in the German parliament. And in the euphoria of the moment, many voters, especially in the east, endorsed the "unity chancellor" – Mr Helmut Kohl.

The results of the 1994 election will show not just how the players have changed, but how the playing field has been transformed by the advent of 17m new inhabitants emerging from 40 years of communist dictatorship.

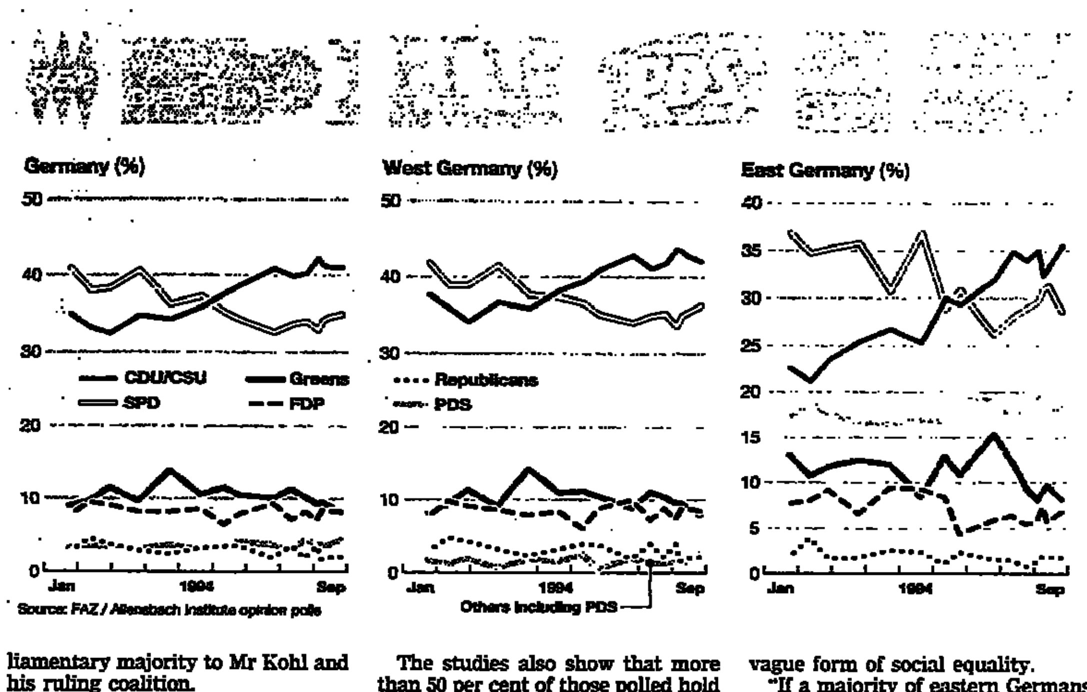
With just 10 days to go before the poll, the result is too close to call. The Bundestag will still be dominated by Mr Kohl's Christian Democratic Union (CDU) and its great rivals, the Social Democratic Party (SPD). But nobody knows which other parties will scrape in alongside them. Yet the make-up of the next German government will be dictated by the small parties – the FDP, the Greens, and the Party of Democratic Socialism, the reformed east German communists.

The Greens, who failed to gain the minimum 5 per cent of the vote cast needed to get into the Bundestag in 1990, are expecting to win sufficient votes to get back this time. However, they are unlikely to win enough support to form a majority with the SPD, their natural partners. The SPD will need a third partner to unseat Mr Kohl.

That could be the FDP. But the Free Democrats have failed to gain 5 per cent of the votes in six consecutive state elections in the past 12 months, and in last June's European poll.

The other unknown is what happens to the Party of Democratic Socialism (PDS). If they get into the Bundestag, they could deny a parliamentary majority to Mr Kohl and his ruling coalition.

Germany's electoral battlefield: how they will vote



Source: FAZ / Allensbach Institute opinion polls

At the PDS headquarters in east Berlin – in the former institute of Marxism-Leninism – the mood is supremely confident. Mr Gregor Gysi, the one-time defence lawyer for anti-communist dissidents who now leads the party in the Bundestag, is convinced the party can win three constituencies outright in Berlin. Under German election rules, that is enough to get the party into parliament with anything up to 30 seats, even if it fails to win 5 per cent of the popular vote.

"We have managed to speak out for the interests of the east Germans who still feel alienated and who still feel they have a separate identity," says Mr Gysi.

East Germany's economy remains sluggish and unemployment is high. But recent studies by the Martin Luther University in Halle and the Infratest Burke Berlin, a polling organisation, with Die Zeit weekly newspaper show that the majority of east Germans are now far more optimistic about their daily lives and economic prospects than they were last year.

The studies also show that more than 50 per cent of those polled hold little regard for the PDS's policies. . Moreover, the PDS has not projected itself as the party of the unemployed. According to Deutschland Archiv, a journal specialising in the unification process, "the unemployed and the under-educated have only average representation" in the PDS.

Despite these trends, the former communists have so far managed to retain about one-fifth of the vote in recent state elections.

One reason for the PDS's electoral survival is that east Germans vote for personalities, not policies. "This is where the PDS has a real advantage," said Mr Wulf Oehme, manager of the FDP's Berlin office.

"The candidates are known locally. They have not come from the west. They have the benefit of understanding what unification means to the east Germans. They belong," he explained.

Another reason is that the hard core of the PDS voters – former civil servants, white collar workers, graduates, academics and pensioners – still hanker after some vague form of social equality.

"If a majority of eastern Germans view equality as more important than freedom, it may be due to the fact that they already enjoy freedom and still miss equality," according to Ms Ilse Spittmann, editor of Deutschland Archiv.

Mr Gysi agrees: "Unification is a psychological process as much as a political one," he says.

"Unlike the political establishment which keeps preaching to the east Germans that the past 40 years were a waste of time, we say that not everything of the former system was bad, that they still have a voice, and that the state must play a role. We are that voice."

The mood in the FDP, in west Germany as in the east, is more gloomy. This is the party of the German *Mittelstand*, the shopkeepers and professional classes. In the west, those supporters seem to be deserting the party. In the east, they still don't really exist.

One accusation by its opponents is that the party has lost its identity in the struggle to remain in power, first with the SPD from 1969 to 1982, latterly with the CDU. Mr Gerhard Schröder, the SPD premier of Lower Saxony, says it is guilty of "merciless opportunism".

Count Otto Lambsdorff, the last FDP leader who stepped down in 1993, admits at least part of the charge. "If he means that we want to be in the government, and to do so we must be opportunistic, I would agree.

"We don't want to be in opposition. That would be stupid," he says. "But we must not abandon our liberal principles."

Yet the party's liberalism has been squeezed. Many of its liberal policies have been stolen by its bigger rivals. Free-market liberalism, including greater deregulation and progressive privatisation, is now a central plank of Mr Kohl's government policy. As for the party's commitment to civil liberties, that has been stolen by the SPD.

At the same time, the FDP has been unable to maintain a clear profile for the voters. Count Lambsdorff believes this is a result of the size of the present conservative-liberal coalition majority, thanks to Mr Kohl's landslide win in 1990.

"We must not give up on our liberal principles, but we may have run that risk in the past four years," he says. "I hear the complaints at our election meetings, that we allowed a health reform bill to be passed which seriously limits the activities of the self-employed, our natural constituency."

The FDP also agreed to the introduction of a publicly-financed insurance scheme to care for the old and handicapped that has hit small businesses hard. "I have considerable understanding for that charge," Count Lambsdorff says.

The survival of the FDP now looks to depend on the long-standing tradition of German voters giving their second votes – for party lists as opposed to individual candidates – to the liberals. There are two factors that make that less likely to happen.

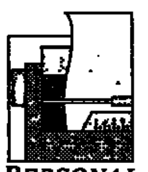
One is that voters in the east have never known that tradition. Having shown little understanding of liberal-market economics, they may not be inclined to adopt it.

The other is that after a row of defeats, voters may start to question whether there is any point in keeping the FDP in parliament.

According to the latest opinion poll, based on the second-vote preferences of electors, the FDP will make the 5 per cent threshold. So will the PDS. The present coalition would then be barely 1 per cent in front of the combined forces of the left-wing opposition.

It is well within the potential margin of error of the polls. But it is certainly much too close for Mr Kohl's comfort.

Lady who felled the feelgood factor



PERSONAL VIEW

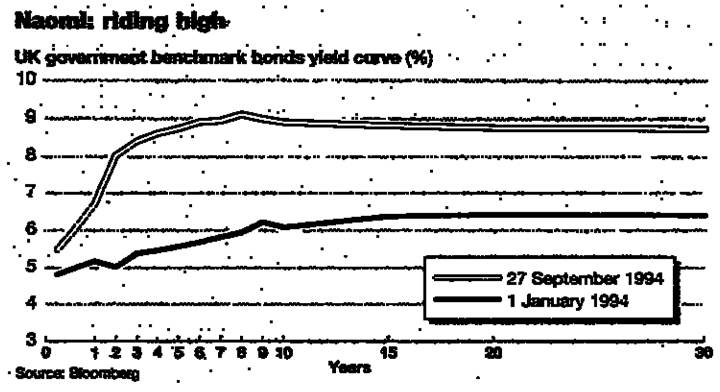
Have you met Naomi – the lady chiefly responsible for the joylessness of the British recovery? She is the Non-Acceptance Of Minimal Inflation, and she is currently riding high. No UK British politician, businessman or banker can afford to ignore her.

Naomi is the problem of transition from life with inflation to life without it. Three lots of people embody her: those who dislike the idea that inflation is dead, those who do not believe that its death will last, and those who cannot believe they have killed it. Together they are smothering the feelgood factor the government so desires.

The first group fondly remembers the ingredients of inflationary happiness. The 10 per cent pay rises that were a sham but sounded good down at the pub. The misleadingly generous interest on deposit accounts. The mortgage debt that was always covered by the rise in house prices, even though part of it was blown in local showrooms. The banks that liked to say Yes, and whose endowments of interest-free deposits minted them profits when interest rates were at crisis levels.

These nostalgic Naomis will moan more loudly as the joyless recovery continues. With the job market improving, their ingrained conviction that a pay offer of less than 5 per cent is a slap in the face will be restored – the nurses are leading the way. The failure of the great housing escalator to roll will be missed more and more by would-be trader-uppers and all who profit from their dealings. This group shares an unstated instinct – that low inflation blocks social mobility, favours the haves and is basically reactionary.

Naomi: riding high



Source: Bloomberg

The disbelievers note the political power of the first group. International investors have shifted the British yield curve, as shown, to reflect their disbelief that the fashion for non-inflationary government will last. Look at the way expected inflation, which dominates long-term interest rates, has jumped this year. Businessmen still seek returns of 18 per cent on new factories: they have not adjusted to non-inflationary times, so their investment is stingy. Would-be house-sellers sit tight: whether trapped by "negative equity" or not, they cannot believe their rightful gains will not come.

These faithless Naomis eye western Europe's persistent unemployment and public debt, and know the old world is going through a wrenching process of disillusionment about what labour rights its employers can afford and what social benefits its governments can afford. They know it is easier to disguise both problems with inflation and devaluation than to face up to them explicitly. They know Britain's household debt-to-income ratio, the highest in Europe at more than 100 per cent, begs for inflationary relief. Recovery or no recovery, they are damn sure the soft option will prevail.

Cue the entry of Naomi Clarke, Naomi George and Naomi Pennant-Rea. These killjoys – chancellor, and Bank of England governor and his deputy – are determined to nip inflation in the bud even if it takes a microscope to find it. They are closing the bar before the party has even started. Well-meaning Naomis they, but they complete the dismal picture. The pleasures of inflation have gone. The pleasures of non-inflation have not yet come. And the monetary pain of moving from one to the other is not yet over.

Will three-headed Naomi drive Britain back into its bad old ways? The bond markets say Yes. But I say No, precisely because of the shrillness with which the markets are speaking. Today's free, world-wide capital movements have silently removed the inflationary option from any individual government; they sack the offending bond market at the first sign of temptation. Naomi will finally expire – perhaps after bringing down the government that raised her.

Nicholas Colchester

The author is editorial director of the Economist Intelligence Unit

OBSERVER

Stumbling on the stubble

■ Oh no – yet more adverts of perfectly contoured male clones, all with skin smoother than a baby's bottom.

Yes, it's another new razor from Gillette, inventor of the original twin-bladed disposable razor. Remember that? The one which boasted: "The first blade shaves you close, the second blade shaves you closer still." Most people wondered: if the first blade was so good, why have the second?

What the media really wanted to see when the new Gillette SensorExcel was displayed in the US this week was Ron Rossi, Gillette's north America president, sporting a mite of lavatory paper stuck to a nastily nicked chin.

No chance. Instead hacks were served up marketing hype, such as the new razor's rubber microfins, which stretch the skin and make it stand to attention for the cutting. Yawn. SensorExcel costs 15 per cent more than any other throwaway plastic razor.

For *that*, we expect aftershave lotion chucked in too.

Sun stroke

■ Not normally given to metaphorical flourishes, Chris Patten excelled himself yesterday.

In a lengthy policy speech, the governor of Hong Kong opined that its final 1,000 days under British rule were not at all the same thing as the last 1,000 days of Hong Kong *per se*. Patten concluded: "The sun sets, and the sun rises."

What exactly did he mean? Some imagined the metaphor might have wider application – sunset UK, etc, etc – but Patten hastily scotched that idea, though he struggled to find examples of sunrise UK.

Inspiration eventually dawned, albeit from an unlikely source. "I'm sure that those who are meeting in – er – Blackpool this week [where the Labour party has been staging its annual hand-wringing binge] would not like to think of setting suns."

Patten finally had to admit the metaphor didn't work. Piquant, isn't it, that he will be leaving his office at midnight?

Norwich school

■ What's wrong with Norwich? It's some months since Mike Sandland, 56, Norwich Union's chief investment manager for the past eight years, let it be known that he was taking early retirement after 33 years on the investment treadmill. He has now quit and his job is yet to be filled.

Admittedly, Norwich Union has had its ups and downs, but the job of managing £33bn must be one of the plums in the UK fund management business. An added bonus is that it took Sandland just seven minutes to get to work, and that was on a bad day. In the US any number of fund managers would exchange the daily grind of commuting into Wall Street for life in a pleasant place like Norwich. By contrast, there still seems to be a school of thought in England that serious fund managers work in the City of London and not the provinces. Perhaps Norwich Union will have to recruit a Scot after all.

'I wish I could drop my cloth cap image'

Very small beer

■ Don't talk about the US federal debt crisis – it's enough to drive you to drink.

No sooner said than done. Presidential Bottlers has launched a new beer called Billary, a terrifically subtle combination of the two Clintons' first names. For every case sold, 25 cents goes to the federal Bureau of Public Debt.

Sales of Billary have already reduced the debt by $15,000 so far, a mere drop in the bucket, sure, but Washington is grateful for every drop of aid. President Clinton personally accepted one cheque on behalf of the bureau. All we need now is Bentsen Bourbon.

Down to earth

■ No shortage of readers willing to point out the obvious error in yesterday's FT interview with Templeton's Mark Mobius, one of the world's hottest fund managers. Mobius, a big picture merchant, said that he had been lured to Russia because of its achievements, such as putting people on the moon.

As every schoolboy knows, it was the Americans who put men on the moon (12 at last count) and the Russians had to make do with a robot called Lunokhod.

Mobius quickly corrected himself, but the comment has prompted stinging comments from envious rivals.

Alastair Begg, Kleinwort Benson's chief investment manager, shot off a letter to the FT saying that if someone as skilled as Mobius is being carried away by such Russian hype, the "time has come to sell short".

"They would say that, wouldn't they?" says Mobius, too polite to mention that such cynical views are not going to help Kleinwort Benson's own efforts to sell shares in Gazprom, Russia's largest gas producer, to overseas investors.

Mum's the word

■ Close-knit family, the Kennedys, even when divorcing. Joan Kennedy has just postponed – until after elections on November 8 – a court action aimed at reopening her 1982 divorce settlement with Senator Edward Kennedy.

She hasn't said why, and nor will her lawyer, Monroe Inker, say if the two have met recently. "I have been sworn to silence by my client," says Inker.

Can it be that Kennedy, who has been a Democrat senator for 32 years, is facing an unusually tough fight from Republican Mitt Romney, a venture capitalist and son of former Michigan governor, George Romney?

Solitary

■ Observer was fortunate enough to be able to eavesdrop on the meeting this week between Nelson Mandela and Bill Clinton. Some astonishing stuff, not least Mandela's quip: "In my country, first we go to jail and *then* we become president."

FINANCIAL TIMES

Thursday October 6 1994

Consortium seeks a stake in south Wales

Mitsubishi joins bid for British Coal pit assets

By Michael Smith

Mitsubishi, the Japanese conglomerate, has joined the bidding to take over British Coal mining assets when the state company is privatised this year.

Its participation in a bid for the south Wales region is a boost for the privatisation, which has largely failed to attract the involvement of overseas companies in spite of worldwide marketing.

Mitsubishi is only the second foreign company to be a confirmed bidder for any of the five regions on offer. The other is Alcan Aluminium of Canada, which is bidding for British Coal's north-east England region in partnership with Ryan Group of the UK.

Mitsubishi has formed a bidding consortium with Taylor Woodrow, the UK construction company, and Kier Mining, a Scottish coal company.

Taylor Woodrow confirmed the joint venture yesterday, although Mitsubishi was unable to comment. Mitsubishi, Taylor Woodrow and Keir are thought to have roughly equal stakes in the venture.

Mitsubishi has wide industrial interests including coal. It is involved in Australian mining through its Mitsubishi Development subsidiary and in UK coal trading through Mitsubishi Corporation Coal Sales.

Taylor Woodrow has been involved in UK mining since the 1940s and has opencast interests in south Wales and Northumberland in northern England.

The combination of the two companies, together with the much smaller Kier Mining, presents a powerful bidding partnership for British Coal's most popular region in the privatisation.

The confirmation of the bid means that at least eight companies or consortia are bidding for the nine opencast sites in south Wales, whereas the central England regions – where virtually all of the deep mines are based – are thought to have attracted just three or four serious bidders each.

Wales is attractive because of the relative abundance of high-quality coal near the surface. British Coal produces about 2.4m tonnes a year from the region, all of it from opencast sites. The region's last deep mine, Tower, was closed this year and is being offered for sale separately as a mothballed pit.

Although south Wales has smaller coal sale contracts than other regions, National Power, the electricity generator, is keen to secure long-term deals from the post-privatisation owner to supply its Aberthaw power station.

It has already signed a 10-year deal with Ryan Group for 1.5m tonnes of coal a year from south Wales. The deal is conditional on Ryan's winning the bid for the region.

German jobs figures provide pre-election boost for Kohl

By Christopher Parkes in Frankfurt

Mr Helmut Kohl's hopes of a fourth term as German chancellor were given a timely fillip yesterday by improving unemployment figures and a favourable opinion poll.

The last labour market data to be issued before the federal election on October 16 shows that the seasonally adjusted jobless total in western Germany fell by 5,000 last month. Although the improvement was enhanced by work creation and education schemes, the fall exceeded most expectations.

There was also an unadjusted drop of 64,000 in unemployment in the east, and favourable producer price figures, which were unchanged in July from June, and up only 0.3 per cent year-on-year.

The unadjusted jobless figure for the whole country – most commonly cited by the media and politicians – fell more than 140,000, taking the total below 3.5m for the first time this year.

Mr Bernhard Jagoda, president of the Federal Labour Office, said the data were more favourable than usual at this time of year, when companies typically hired extra staff after the summer lull.

The number of vacancies registered in the west rose 16 per cent during the month, Mr Jagoda said, adding that the low point in the eastern labour market was "well behind us".

At 7.9 per cent compared with 8.2 per cent in August, the jobless rate in the west was the lowest of the year so far, although still above the annual average of 7.4 per cent in 1993.

The eastern rate, down to 13.8 per cent in September from 14.7 per cent, was also considered likely to bolster support for Mr Kohl's Christian Democrats in the region.

Signs of improved backing for the CDU in the five new states emerged yesterday in a poll from the Allensbach Institute showing nationwide support for the ruling coalition steady at 49.3 per cent.

Although the share of the vote going to the liberal Free Democrats, junior government partners, was down slightly on the institute's previous survey, it was still sufficient at 8.2 per cent to help the coalition to an absolute parliamentary majority.

Meanwhile, the Social Democrats advanced their share to 35.1 per cent from 34.7 per cent, while the Greens, possible coalition partners, slipped from 9.2 per cent to 8 per cent.

The party of Democratic Socialism, the successor to the east German communists, has continued to gain ground. It scored 4.5 per cent compared with 3.6 per cent in the previous poll.

Still too close to call, Page 19

Seoul lifts ceiling on foreign investment

By John Burton in Seoul

South Korea will raise its ceiling on foreign stock investments from 10 to 12 per cent on December 1 and increase the limit to 15 per cent next year, Mr Park Jae-yoon, the new finance minister, said yesterday.

It is the first increase in the foreign shareholding ceiling since the Seoul bourse was opened to foreign investors in January 1992. They have pushed for a higher limit, as the shareholding quota has long been filled for the country's most attractive stocks.

The Seoul bourse still remains one of the most difficult in Asia for foreign investors to enter. They control 8.6 per cent of market capitalisation with a total of $9.2bn in net investments at the end of August. Leading investments come from the US with $2.8bn, the UK with $2.45bn and New Zealand with $417m.

At present levels, the two percentage point increase will allow an extra inflow of $2.9bn from overseas into the market.

The 8 per cent foreign shareholding limit on Pohang Iron and Steel (Posco) and Korea Electric Power (Kepco), the two largest state-controlled companies, will be raised to 10 per cent next year. Posco and Kepco are also scheduled to become the first Korean companies to be listed on the New York Stock Exchange later this month.

The finance ministry has resisted a rise in the ceiling because of worries that the capital inflow would increase inflationary pressures. In addition, Korean companies feared that a new influx of foreign capital would cause an appreciation of the Korean won, and reduce the competitiveness of their exports.

But the ministry finally bowed to growing international pressure to increase the limit, as the government is preparing to join the Organisation for Economic Co-operation and Development in 1996.

The Korean general share index has surged to record highs in recent weeks as domestic investors bought blue-chip stocks in anticipation that the foreign shareholding ceiling would be raised and further increase stock prices.

THE LEX COLUMN

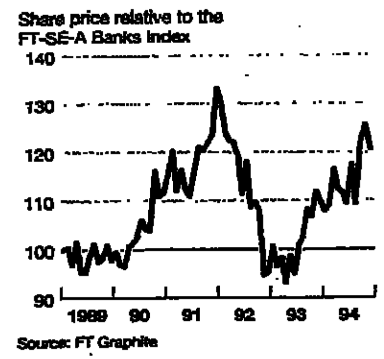
Electronic Elsevier

Reed Elsevier's $1.5bn purchase of electronic publisher Mead Data Central should have benefits in the short, medium and long terms. The immediate enhancement to earnings per share comes from the tax relief that Reed will enjoy in the US on the amortisation of $1.27bn of goodwill – a wheeze Reed also employed when it bought Official Airline Guides last year. The tax relief reduces the historic price-earnings multiple from 36 to 20. If MDC maintains the strong growth in profits shown so far this year, the 1994 multiple will be only 17.

The medium-term benefit should come from boosting margins. With a paper company as a parent, MDC's operating margins have been stuck in the 12-15 per cent range. Reed argues that it should be possible to push margins to nearer its 20 per cent norm for professional publishing; costs can be cut, higher-value products can be developed and MDC's services can be marketed more vigorously, notably outside the US. There is, of course, a risk that margins could be depressed through price competition. The most vulnerable part of MDC is Nexis, its business information arm, which is essentially an electronic warehouse for other companies' information. But the Lexis legal information arm – the largest and most profitable part of MDC – looks better protected as most of its data is proprietary.

The long-term bet is that MDC's electronic culture can be transferred to the rest of the Reed empire. Plans are so far rather woolly. But it seems likely that scientists and doctors, who currently take Reed's information in hard copy, will eventually want access at touch of a button. MDC could prove the group's ticket to the multimedia superhighway.

FT-SE Index: 2956.3 (-45.5)



Source: FT Graphite

Bank of Scotland

After this week's turmoil in the merchant banking sector, Bank of Scotland's results throw into sharp relief the question of what constitutes quality earnings from banking. While the merchant banks were wrestling with the collapse of returns from securities trading, Bank of Scotland has been making good profits out of old-fashioned lending. Provisions, which were never as high as those of other banks, are coming down; interest income is rising; and first-half pre-tax return on capital is 34 per cent. Yet there must be doubts about how long the bank can keep up its act.

After all, there will not be another special dividend from 3i. Margins on mortgage lending will be compressed by higher base rates and the decline in non-performing loans will slow. The chances of Bank of Scotland being able to compensate for this with strong growth in its loan book are slim, which is why its focus on raising its capital ratio through retained earnings looks a little perverse.

A more valid point is that even well-managed lending institutions are not immune from the cycle, so a degree of dividend-smoothing makes sense. Bank of Scotland is unlikely to sustain its present return – the slippage of profits from credit cards is a particularly ominous sign of increasing competition. But quality of earnings will be enhanced if the bank resists the temptation to follow the herd in making loans at foolish prices. Having managed prudent balance sheet growth in the recession, the bank should be applauded if it fails to be carried away by the recovery.

Storehouse

Retailers' share prices have fallen back sharply in the past few weeks, primarily in response to higher UK interest rates. But the outlook is not wholly dismal, especially for those companies still with scope for restructuring. Next and Sears have both recently reported strong interim profits growth. Yesterday Storehouse gave a highly positive trading statement.

Storehouse detailed plans for increases in selling space at Bhs, hinted at large benefits to be extracted from the re-engineering of the supply chain, and signalled a sharp increase in capital expenditure. It also said that sales growth would reach an annual rate of 7 per cent for the first half, up from 5 per cent in the first quarter. Even if the sales growth was to some extent triggered by aggressive advertising, the City was impressed and the shares rose against the market.

There is much to be impressed about. Storehouse's strategy looks correct; its concentration on Bhs and Mothercare leaves the group well-focused. The earnings recovery is in full swing. Operating margins at Bhs seem set to rise from 3.5 per cent in 1993 to around 10 per cent next year. There is also scope for rolling-out the revamped Bhs formula further. The danger is that management may fall into the retailing trap of over-zealous expansion. The shares are rated in line with the retail sector, if Marks & Spencer is excluded. That is high enough till it becomes clear whether Storehouse can sustain its success.

US healthcare

Forget the Clintons. US healthcare reform is forging on without them. The latest consolidation was yesterday's merger between Columbia/HCA Healthcare and HealthTrust, the country's two biggest hospital groups. The deal creates a $15bn company with 311 hospitals and 170,000 employees. That makes it the 12th largest employer in the US – not bad for a company which in 1992 generated sales of just $1.2bn and controlled only 23 hospitals.

Columbia's strategy is simple. It purchases several hospitals in a specific region and improves profitability by rationalising them. At its most brutal the group strips a hospital of all equipment, knocks it down and then sells the real estate. Cost savings are also achieved by using greater purchasing power – it annually buys $2.5bn of hospital supplies – to drive down prices.

Doubts remain whether Columbia can continue to implement its strategy successfully. The easiest cost-cutting has been completed and the biggest hospital groups have been snapped up. The company argues it can maintain momentum by branching into other fields such as nursing homes. Even if Columbia stumbles, the pressure on hospital suppliers is unlikely to let up. Other groups such as National Medical in California and Epic in Texas are replicating its strategy. Given the prospects for hospital supply companies' pricing and volumes, their shares' 17 per cent underperformance since January 1993 is no surprise.

Reed Elsevier expands in US

Continued from Page 1

predicted that the deal – financed from cash reserves and $1bn of dollar borrowings – would be earnings enhancing "from the outset" and would lift North American sales by more than 50 per cent.

Growing demand for MDC's operations is expected to lift turnover to $612m ($551m) next year and analysts expected it to contribute profits of about $75m.

Shares in the group, however, fell in London and Amsterdam after Standard & Poor's placed Reed Elsevier ratings on its negative "Credit Watch" list and Moody's put its long-term debt ratings on review for possible downgrade.

Reed International, the UK publisher which merged with the Dutch group last year, ended down 11p at 744p, while Elsevier shed 59 cents to close at Fl16.10.

Some city analysts blamed the negative market reaction on concern at the group's £1.2bn borrowings – equivalent to gearing of 90 per cent.

Russian debt compromise

Continued from Page 1

behind it the financial consequences of the collapse of the former Soviet Union", the debts of which it assumed when the union broke up.

The deal was some consolation to the Russian government after a testing week during which it was rebuffed over an attempt to increase its IMF borrowing facilities, and an effort to postpone other debt repayments.

It is likely to have talks with IMF officials later this month on its request for larger facilities. This could be followed by separate talks with the Paris club of government creditors over some $42bn of debt.

However, Russia received warnings from the Group of Seven leading industrialised nations last weekend that it should control domestic inflation, and creditor governments want it to reach an IMF deal before rescheduling debt.

Bank creditors include Deutsche Bank, Credit Lyonnais and Industrial Bank of Japan.

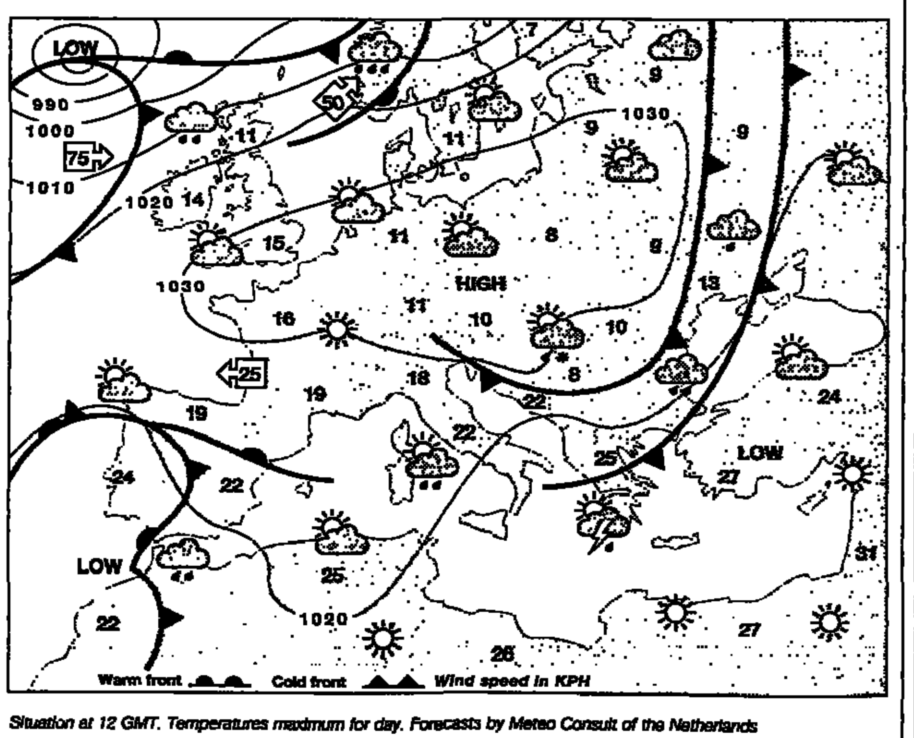
FT WEATHER GUIDE

Europe today

Much of continental Europe will be influenced by a strong high pressure area over Germany. As a result, the Low Countries, Germany, the Alps, France and Poland will have sunny periods with patches of mist or low cloud. An active low pressure area south of Iceland will send a series of fronts with showers into the extreme north-west of the British Isles. Northern Europe will have plenty of cloud and outbreaks of rain. Western Norway will be especially wet. Persistent low pressure will cover southern Spain and parts of the Mediterranean. As a result, southern Greece, Italy and Spain will have thunderstorms, some of which could be heavy.

Five-day forecast

Strong high pressure over central Europe will slowly move into eastern Europe and north-west Russia. Central and western Europe will remain settled. Northern Europe will have an active low pressure area but calmer conditions will arrive over the weekend and the beginning of next week. The Mediterranean will remain unstable with heavy rain or thunderstorms, especially over Spain.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	35
Accra	fair	30
Algiers	shower	25
Amsterdam	fair	14
Athens	fair	27
Atlanta	fair	27
B. Aires	fair	20
B.ham	cloudy	15
Bangkok	fair	34
Barcelona	shower	21
Beijing	fair	22
Belfast	cloudy	14
Belgrade	shower	10
Berlin	fair	10
Bermuda	shower	28
Bogota	fair	19
Bombay	rain	32
Brussels	fair	13
Budapest	shower	9
C.hagen	shower	11
Cairo	fair	31
Cape Town	sun	22
Caracas	fair	31
Cardiff	cloudy	15
Casablanca	fair	22
Chicago	fair	22
Cologne	fair	12
Dakar	fair	31
Dallas	sun	30
Delhi	fair	35
Dubai	sun	35
Dublin	cloudy	15
Dubrovnik	shower	20
Edinburgh	cloudy	14
Faro	shower	25
Frankfurt	fair	13
Geneva	sun	15
Gibraltar	shower	20
Glasgow	rain	14
Hamburg	fair	11
Helsinki	fair	8
Hong Kong	cloudy	29
Honolulu	fair	31
Istanbul	shower	22
Jakarta	fair	32
Jersey	fair	12
Karachi	sun	35
Kuwait	sun	38
L. Angeles	fair	23
Las Palmas	fair	26
Lima	cloudy	21
Lisbon	shower	26
London	fair	16
Lux.bourg	fair	12
Lyon	sun	16
Madeira	shower	24
Madrid	shower	23
Majorca	fair	23
Malta	shower	26
Manchester	cloudy	14
Manila	fair	32
Melbourne	rain	15
Mexico City	fair	19
Miami	fair	30
Milan	fair	18
Montreal	fair	17
Moscow	shower	9
Munich	fair	8
Nairobi	fair	28
Naples	fair	22
Nassau	shower	31
New York	sun	22
Nice	sun	21
Nicosia	sun	35
Oslo	fair	12
Paris	fair	16
Perth	fair	18
Prague	fair	7
Rangoon	fair	34
Reykjavik	rain	8
Rio	fair	25
Rome	sun	23
S. Frsco	sun	22
Seoul	shower	22
Singapore	cloudy	31
Stockholm	cloudy	10
Strasbourg	fair	14
Sydney	fair	27
Tangier	shower	24
Tel Aviv	sun	32
Tokyo	shower	23
Toronto	fair	18
Vancouver	fair	15
Venice	shower	18
Vienna	fair	8
Warsaw	fair	8
Washington	sun	23
Wellington	rain	14
Winnipeg	cloudy	22
Zurich	fair	13

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday October 6 1994

IN BRIEF

Molson to sell beer in China

Molson, the Canadian brewing, retailing and special chemicals group, is entering the Chinese beer market with direct exports from its Canadian breweries. Molson Breweries, the brewing unit owned 40 per cent by Molson, 40 per cent by Foster's of Australia and 20 per cent by Miller of the US, will start by exporting Molson "Ice" beer. Page 29

US group set to buy F.G. Wilson
F.G. Wilson (Engineering), Europe's largest manufacturer of diesel generator sets, confirmed it had reached a preliminary agreement to be acquired by St Louis-based Emerson Electric. The company, one of Northern Ireland's biggest private sector employers, would not disclose a price for the takeover, but it is believed that Emerson will pay between $237.00m and $316m. Page 31

Bayer plans global generic drugs chain
Bayer, the German drugs and chemicals company, is planning to set up a chain of businesses around the world to sell generic drugs. Bayer is creating a joint venture with US generics specialist Schein, the first large deal with Schein since Bayer paid $310m for a 28.3 per cent stake in March. Page 25

Steep rise in profits for Guoco
Guoco Group, the Hong Kong-based financial services and garment company controlled by the Malaysian Quek family, yesterday reported a sharp rise in net profits, to HK$1.3bn (US$168.4m) from HK$573.8m for the year to June 30. The group made reaped HK$309m from investment and property sales, which were taken above the line. Earnings did not include transfers to inner reserves. Page 27

Rabobank to buy Australian bank
Rabobank, the Netherlands-based co-operative banking group which specialises in the food and agribusiness sector, is to buy the Primary Industry Bank of Australia for A$102m (US$75.5m). PIBA's assets at the end of March were A$1.83bn. Its main focus recently has been the provision of rural mortgage loans. Page 27

Orkla announces improved earnings
Orkla, the Norwegian group with interests ranging from branded consumer goods to chemical processing, announced an improvement in eight-month pre-tax profits and the acquisition of the fine chemicals activities of EniChem of Italy for an undisclosed amount. Page 28

Avesta Sheffield to expand US presence
Avesta Sheffield is planning to expand its presence in the US market through the SKr200m ($27.4m) purchase of Eastern Stainless Corp from Armco, one of the leading US steel groups. The Anglo-Swedish stainless steel producer says the purchase of the 84 per cent stake comes at a time of rising US demand and increasing prices. Page 28

Demand fuels profits for Hewden Stuart
Hewden Stuart, the UK's biggest independent plant hire group, said increased demand and improved prices helped it to increase pre-tax profits by 77 per cent to $25.59m in the six months to July 31. Sir Matthew Goodwin, chairman, said trading was continuing at a high level and he expected the pre-tax profits in the second half would be "substantially ahead" of the $15.60m achieved last time. Page 29

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
AG Ind Verk	498.5	-	24
Asko	730	-	45
Colonia Pr	810	-	35
Leifheit	670	-	30
Veba	498.5	-	13.3
Wella	980	-	22
NEW YORK ($)			
Falls			
Caterpillar	52½	-	1⅝
Columbia HCA	40⅛	-	2⅝
Dow Chemical	72	-	2
Intl Paper	75¾	-	2⅛
Motorola	49	-	2
Upjohn	51¾	-	1⅛
PARIS (FFr)			
Falls			
Accor	595	-	17
BIC	631	-	20
Bongrain	2901	-	161
Danone	697	-	26
Eurafrance	1700	-	137
Legrand	6800	-	250
TOKYO (Yen)			
Rises			
Central Fin	479	+	14
Fuji Spin	500	+	18
Honshu Pap	650	+	32
Mercian	704	+	21
Falls			
Takaoka El	585	-	19
Yomiuri	931	-	29

New York prices at 12.30pm.

LONDON (Pence)			
Rises			
Cohen (A)	540	+	30
Geest	202	+	8
Kode Intl	64	+	8
MAI	238	+	7
Schroders	1310	+	25
Falls			
Bank of Scotland	196	-	10
Blenheim	245	-	20
British Thornton	51	-	24
DFS	262	-	8
Grampian Hldgs	117	-	12
Haden MacLellan	66	-	9
ICI	787	-	28
Lloyds Chemists	292	-	10
Nurdin Peacock	177	-	6
Rhino	23	-	3
Royal Doulton	277	-	9
Sanderson Bmll	183	-	8
Sebc	504	-	20
Sterling Inds	232	-	11
Superscape VR	207	-	8
Tate & Lyle	419	-	21
Telegraph	310	-	13
UPF Group	153	-	9
Waste Mngmnt	514	-	19

Columbia/HCA to acquire HealthTrust

By Richard Waters in New York

Columbia/HCA Healthcare, the biggest hospital group in the US, is to acquire HealthTrust, owner of the country's second-largest hospital chain, in an all-stock deal valued yesterday at about $3bn. It is the third multi-billion dollar hospital takeover by Columbia in 18 months. It transforms Columbia from a small company with 20 facilities to one with $15bn in turnover and 311 hospitals.

The transaction represents the first big takeover in the US healthcare industry since last month's failure of the Clinton healthcare reform legislation, and points to the consolidation of the industry regardless of political considerations.

Both companies said a need to reduce costs and improve services for the managed care organisations was behind the deal. "This will give us even a greater opportunity to make sure we are affordable," said Mr Richard Scott, the former financier and Columbia/HCA chief executive who masterminded the company's recent deals.

HealthTrust's chairman Mr Clayton McWhorter, will become chairman of Columbia/HCA, while Mr Thomas Frist will step down as chairman to become a vice-chairman.

Although Columbia/HCA would account for more than a quarter of the hospitals owned by for-profit companies, as opposed to not-for-profit organisations, after the deal the company claimed the takeover would not harm hospital competition. For-profit companies accounted for 14 per cent of all hospitals in the US, Mr Scott said.

Adding HealthTrust's 116 hospitals to the 195 owned by Columbia/HCA would lead to little overlap, since the smaller company operated facilities mainly in rural areas, the companies said. Its network is intended in part as a feeder system for Columbia/HCA's network in urban areas. The only area where the merger was likely to prompt anti-trust concerns was in SaltLake City, Mr Scott said.

The two companies said the merger would produce annual savings of $125m. Much of this would come from combining purchasing operations, giving total purchases of $2.5bn of medical equipment and supplies a year and adding to their ability to negotiate lower prices. Further savings would come from eliminating duplication of functions.

The deal is unlikely to mark an end to Columbia/HCA's expansion, although there remain few healthcare companies as big as HealthTrust for it to buy.

Fears that yesterday's all-stock deal would dilute the company's earnings per share, wiped 5 per cent off Columbia/HCA's share price in early trading yesterday, pushing it $2⅝ lower to $40⅜. Shares in HealthTrust jumped $1¾, to $33¾.

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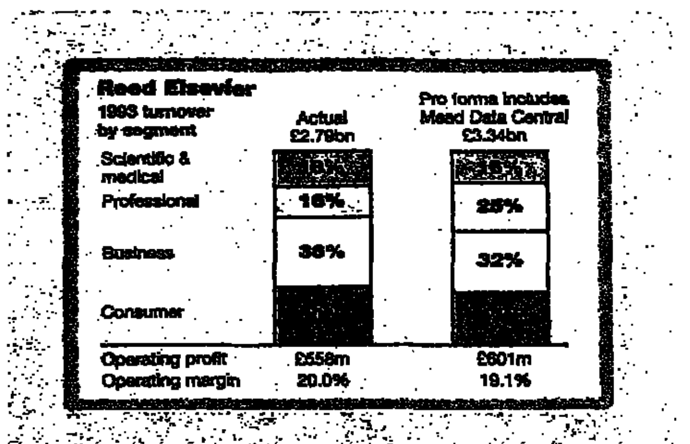
Tim Burt explains why Reed Elsevier's purchase of Mead Data Central marks a move away from print

North America proves the right connection for an on-line future



Reed Elsevier, the Anglo-Dutch information and publishing group, will today celebrate its listing on the New York Stock Exchange by announcing that North America has become its most important market.

Its arrival on Wall Street has coincided neatly with news that Reed Elsevier has agreed to pay $1.5bn for Mead Data Central – the distributor of on-line legal and business information – in a deal likely to contribute $612m of sales and profits of about $75m next year.

The move followed six months of talks with Mead Corporation, the US paper and forest products group which announced plans in May to sell MDC, whose on-line publishing operations include Lexis and Nexis.

Despite the protracted negotiations, Reed Elsevier only found out at the weekend that it had beaten rival bids by Times Mirror, the US media group, and Thomson of Canada when Salomon Brothers, its US adviser, telephoned its executives at the Grand Canyon, where they were taking a break from meetings with US investors.

"We heard we that were the prefered bidder as we watched the sun go down," said Mr Nigel Stapleton, finance director. "We were expecting to be outbid, but we obviously made a knock-out offer."

For Mr Pierre Vinken, the group's Dutch co-chairman, the acquisition marks an important step in a strategy first launched 15 years ago, when Elsevier – which merged in 1993 with Reed International of the UK – targeted North America as the world's most lucrative publishing market. The group's sales in North America rose 24 per cent to £1.04bn ($1.64bn) last year – 37 per cent of the group total – while operating profits grew to £194m.

While predicting MDC would boost those figures next year, Mr Vinken admitted the group would be unable to make a similar sized acquisition in the near future. He hinted, however, that it was considering smaller deals to expand its presence in the region. Its attention is focusing on parts of Ziff Communications, the world's largest publisher of computer magazines.

"We are researching Ziff as if we had not acquired Mead. If there are parts of the business to go for, we have the capacity to buy them", he added.

The group also outlined plans to increase spending on its electronic publishing businesses by £10m a year to £30m. Mr Vinken said the increased investment would probably be matched by a slowdown in resources devoted consumer publishing, its lower margin magazine, books and newspaper business. Imminent disposals are unlikely, but expansion of regional newspapers and magazines such as Woman's Own and TV Times has also been ruled out.

Reed Elsevier's investment plans have centred instead on three higher margin publishing businesses: scientific and medical, business and professional. Of those, MDC will be integrated into the professional sector.

Its maiden contribution next year will signal a shift from the group's dependence on hard copy publishing to increasing use of on-line information. Electronic publishing is expected to grow from 10 per cent of turnover to more than 20 per cent next year, and Mr Vinken has ambitions to expand it further. He hopes MDC's technology can be adapted to offer Reed Elsevier's scientific journals and enhance its extensive medical database. "We have acquired a massive electronic warehouse and the possibilities are enormous. Overnight, we have turned into a state-of-the-art electronic publisher."

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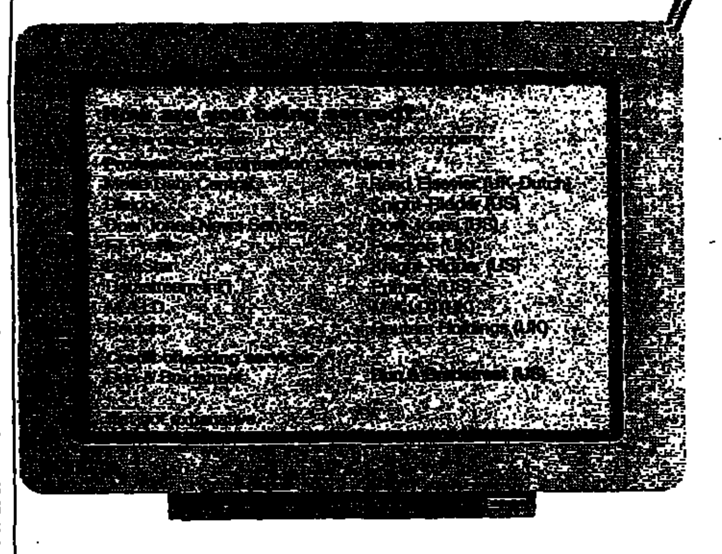

Hands-on executives: this one's for you

Electronic publishing is in turmoil. Yesterday's deal is just one indicator of a wave of change sweeping through the sector promising new growth opportunities. Another is the emergence of Apple and Microsoft as potential competitors to established players such as Compuserve and America On Line.

The market is not homogeneous. Companies like Mead, Dialog and Dow-Jones News retrieval of the US and FT Profile and Reuters of the UK are serving essentially the professional market, providing data to experienced information managers. On the other hand, companies like Compuserve, owned by H&R Block, America On Line and Prodigy, a joint venture between IBM and Sears, are chiefly, but not exclusively, aimed at consumers. Information is a commodity to be bought and sold, however, and the data provided through one service may have originated on another.

There is a further distinction between companies like Mead and Dialog, which operate on a "dial-up" basis, and companies like Reuters or Telekurs where information is transmitted and updated continuously.

All on-line data suppliers have their eyes on a new target market: the "executive end-user". They are racing to make it easier and cheaper for executives to carry out their own searches for information. Some, for example, are building in "Windows", the graphical interface popularised by Microsoft. Prices are being pegged to a flat monthly fee.

In earlier years, on-line services of the kind provided by Mead or Dialog were aimed at information professionals. Executives did not carry out their own searches but requested information from librarians trained to use complex methods of data retrieval. It was expensive; at up to £120 ($190) an hour for some services, too costly to allow the inexperienced to roam aimlessly through the databases.

A result was that the market, although potentially vast, grew much more slowly than anticipated and in the past few years has been showing signs of saturation. Profitability has been a problem for some suppliers.

Now the technologies which are making multimedia possible are giving on-line database services new life. The secret seems to lie in providing on-line services to appeal to executives at home and in the office.

Alan Cane

Spain clears way for foreign stakes in Telefónica unit

By Tom Burns in Madrid

Mr Jose Borrell, Spain's Transport and Telecommunications minister, said yesterday there were no obstacles to foreign companies taking equity stakes in Telefónica's profitable international subsidiary. He also indicated that the government might sell some of its equity to new partners.

However, the subsidiary, Telefónica Internacional (Tisa) would rather issue equity in order to finance its continued expansion in Latin America where it is the dominant foreign operator.

Tisa said it was in discussions with GTE, the US operator which has licences in Latin America, and that the two companies were conducting due diligence investigations into their respective businesses in the continent.

An agreement with GTE to jointly develop the fast growing Latin American market could be "weeks or months away", Tisa said. "Ideally there should be an agreement before the end of the year". The negotiations have been slowed by the varying forms of equity holdings, management agreements and consortium arrangements that both companies have in Latin America.

"We are looking for the complementary nature of the businesses and there are a lot of complexities to iron out," Tisa said.

In the midst of the negotiations Tisa is conducting a review of its Latin American operations with a view to gaining economies of scale and to access superhighway information technology. It is trying to shape its different units, which include basic telephony, cellular, cable TV, data transmission and yellow page licences, into a more cohesive mould.

Tisa, which has stakes in 20 Latin American companies and has a market capitalisation of between $6bn-$7bn, raised first-half profits this year by 80 per cent to $88.9m. It is investing about $600m a year in Latin America and plans to bid for telecommunications privatisations in Bolivia and Nicaragua.

Mr Borrell said "there was no problem" over an alliance between Tisa and a foreign operator and said a sale of government equity in the company was a possibility. The Spanish government holds a 23.8 per cent stake in Tisa directly, while Telefónica, which is 32 per cent owned by the government, owns the rest of Tisa equity.

Tisa is discussing partnership alliances with AT&T, the US long-distance operator, but it said these were at a more preliminary stage.

Purdey goes out with a bang

By David Wighton in London

James Purdey & Sons, Britain's most famous sporting gunmaker, is giving up its independence nearly 200 years after James Purdey set up shop in London's Piccadilly. The company yesterday announced that it was being sold for an undisclosed sum to Vendôme, the luxury goods group which owns Dunhill and Cartier.

The deal, which sees Purdey's ultimate ownership transferring to a Swiss holding company, mirrors the sale of Purdey's leading rival Holland & Holland to Chanel for £11m ($17m) in 1989. Vendôme and Purdey would provide no further details of the deal, which, because of its size, was not the subject of an official announcement.

But the companies stressed that Purdey would "continue its activities entirely unchanged" under the chairmanship of the Hon Richard Beaumont.

Founded in 1818, Purdey has always aimed at the top end of the market, with its best double-gun then costing about £55. Today the price would be closer to £40,000. Even so, there are 100 customers on an 18-month waiting list.

Purdey has had a somewhat chequered financial history, suffering particularly from difficulties in extracting prompt payment from its upper-class customers. In the founder's day,the firm occasionally waited 10 years between the sale and final payment. Based in Mayfair, the company now makes guns, rifles and cartridges, sells a range of shooting accessories and runs a shooting school.

Vendôme was formed in August last year by combining the luxury goods interests of Richemont, the Swiss holding company based on the South African Rupert family's stake in cigarette group Rothmans.

In addition to Dunhill and Cartier, Vendôme owns watch makers Piaget and Baume Mercier, Montblanc pens and Chloé, the fashion and perfume house. More recently it has bought Karl Lagerfeld's women's fashion business and the UK traditional menswear company Hackett.

Vendôme, which is 70 per cent owned by Richemont, made a pre-tax profit of £196m in the year to March, down 5 per cent.

Avesta Sheffield to acquire assets of Armco business

By Christopher Brown-Humes in Stockholm

Avesta Sheffield is planning to expand its presence in the US market through the purchase of the assets of Eastern Stainless from Armco, one of the leading US steel groups.

The Anglo-Swedish stainless steel producer said the deal came at a time of rising US demand and increasing prices. It comes just three weeks after British Steel increased its stake in Avesta Sheffield to 49.9 per cent from 40 per cent.

Buying Eastern will increase Avesta's US stainless plate sales to SKr900m ($120.3m) from SKr500m a year, while lifting its plate capacity there to 60,000 tonnes a year from 35,000 tonnes. The company operates a stainless plate plant in New Castle, Indiana, and has a welded tube factory in Wildwood, Florida.

Eastern turns over $65m a year but has made heavy losses for several years. Avesta plans to restructure the operation to return it to profit by 1996. It pointed to potential synergies with its New Castle unit.

The acquisition includes a plate plant, a mothballed melting shop, and an annealing and pickling line. Avesta said it had no immediate plans to reactivate the melting shop. The parties hope to finalise the deal by the end of the year.

North America is Avesta's third biggest market, after the UK and the Nordic region, and accounts for 25 per cent of group sales.

Mr Adri De Ridder, strategic planning officer, said it would be easier to increase volumes in the US than in the intensely competitive European market. "US per-capita consumption of stainless is significantly lower than in Europe," he said.

Orkla rises in first eight months

By Karen Fossli in Oslo

Orkla, the Norwegian group with interests ranging from branded consumer goods to chemical processing, yesterday announced an improvement in eight-month pre-tax profits and the acquisition of the fine chemicals activities of Eni-Chem of Italy for an undisclosed amount.

Group pre-tax profits rose to NKr977m ($138m) from NKr907m, of which NKr274m was derived from the investment division, against NKr202m in the same period last year.

Group sales advanced to NKr13.66bn from NKr11.28bn as operating profit increased to NKr918m from NKr852m, helped mainly by good progress in Orkla's chemicals business which lifted operating profit 62 per cent to NKr203m.

Orkla's industrial activities, in which chemicals is grouped, lifted operating profit to NKr897m from NKr835m. Branded consumer goods, part of Orkla's industrial activities, saw operating profit little changed at NKr657m against NKr659m for the eight-month period last year.

Orkla said the acquisition by Borregaard – a unit within the group – of EniChem's diphenol activities, comprised the production and processing of fine chemicals for the pharmaceuticals and food industries and the production of agricultural and photographic chemicals. The deal is expected to be completed in November.

It includes technology and two production plants in Italy, a 55 per cent interest in a plant under construction in China and the repurchase of Eni-Chem's 50 per cent stake in the joint venture company Euro-Vanillin in Norway.

The new fine chemicals activities are to be grouped into a new business area to be called Borregaard Synthesis.

Orkla said following the acquisition, Borregaard would have 2,000 employees and annual sales in 1995 of about NKr3.5bn.

Technip outlines planned flotation

By John Ridding in Paris

Technip, the French engineering group, yesterday announced details of its forthcoming flotation which values the company at between FFr3.8bn and FFr4.4bn ($710m-$830m).

The company, which is controlled by a group of energy and oil groups, including Elf Aquitaine, Total, Gaz de France and the state petroleum institute, said the flotation would involve a public offer of about 40 per cent of its shares. The price per share, to be set on October 20, will be between FFr235 and FFr265.

The principal investors will all reduce their stakes but will still hold about 48 per cent of the shares in Technip and will be bound by a six-year shareholders agreement.

Mr Pierre Vaillaud, Technip chairman, said the flotation would facilitate the international expansion of the group, which specialises in engineering in the energy sector. For the principal investors, it provides a valuable source of funds. Elf Aquitaine, the oil group which is seeking to reduce its indebtedness, is expected to recoup about FFr1bn from the operation.

Technip said the pre-placement period for the offer, which began yesterday, would continue until October 19. The public offer for shares is due to last between October 21 and October 26.

The company announced a steady improvement in results for the first half of the year, increasing net profits to FFr179.2m from FFr154.7m on sales of FFr4.8bn. Mr Vaillaud predicted an increase in net profits for the full year of between 7 per cent and 8 per cent.

Carolco Pictures on brink of collapse

By Patrick Harverson in New York

Carolco Pictures, the independent Hollywood film studio which has teetered on the brink of financial collapse for several years in spite of producing box-office hits such as *Cliffhanger* and *Terminator 2*, warned yesterday that its immediate survival was in doubt because of severe liquidity problems.

The debt-laden studio, which agreed earlier this year to merge with Live Entertainment, the video and music retailer, in an effort to stave off insolvency, said it had been forced to use its current cash balances to fund the continued production of two films – *Showgirls* and *Cut-Throat Island*. Carolco said problems in casting and production for the two films would delay the availability of production loans needed to complete the films until later in the fourth quarter.

In an attempt to solve the short-term financial crisis and continue with the production of at least one of the films, Carolco said it was negotiating to transfer its rights to *Showgirls* to Metro-Goldwyn-Mayer, another troubled Hollywood studio. MGM last year was part of a group of investors which pumped $112.5m into Carolco to keep it afloat.

Carolco said it had negotiated an agreement with RCS Video Services International, an Italian company which is due to buy Carolco debt in December. This would allow the Hollywood studio to borrow against the anticipated proceeds of the sale of that debt, and secured prepayments of various funds from Pioneer of Japan and Le Studio Canal of France related to the licensing and sale of Carolco films.

The studio said the proceeds from these agreements should total about $20m, which would allow it to continue with the production of *Cut-Throat Island*. However, if the agreements – which are subject to the approval of the various companies' boards – break down, Carolco said it may not be able to continue operating.

Investors warm to Südelektra

The group is one of the top-performing Swiss stocks, writes **Ian Rodger**

It took Swiss investors a while to get to like Südelektra, the industrial holding company controlled by Glencore International, formerly Marc Rich & Co.

But in the past nine months, they have made the company one of Switzerland's best performing stocks. Südelektra shares, which were split two-for-one on Monday, have soared to SFr895 from SFr370 at the end of last year.

The main attraction, apart from a sharp improvement in recent earnings, is the potential for synergy between Glencore and Südelektra.

Glencore is primarily a commodity trader, but since 1985 it has invested more in the production of the raw materials and commodities it sells. Now it has decided that any further industrial assets it takes on will be put into Südelektra.

Mr Willy Strothotte, chairman of both companies, says the ownership of commodity production can be an advantage to a trader. "It elevates you to a different level of co-operation with your trade partners," he says.

He cites the example of stainless steelmakers, who need a reliable supply of ferrochrome. They are more likely to establish a long-term contractual relationship with a trader that has some captive capacity, he argues.

For Südelektra, which has just taken over a South African chrome mine and ferrochrome smelter from Glencore, being associated with one of the world's best commodity marketers should yield considerable benefits.

For one thing, it enables the mine and plant managers to concentrate solely on production. Glencore traders assure the supply of raw materials they need and the sales of the output. And, since Glencore looks for long-term sales contracts, Südelektra should be a less volatile performer than other producers. "We try for a steady return rather than to pick the top of the cycle," Mr Strothotte says.

Finally, Glencore's worldwide market presence and industrial intelligence helps Südelektra to spot potential acquisitions.

All this is a long way from Südelektra's beginnings in 1926 when it was set up by Swiss investors to finance infrastructure projects in South America.

After the second world war, electric power projects in Peru and Argentina in which it was involved were nationalised, converting the company perforce into an investment fund.

Marc Rich bought a 53 per cent stake from Union Bank of Switzerland in 1990, saying it would turn Südelektra into an industrial holding company. Investors were either unimpressed or took little notice, because the shares scarcely reacted. Nor did they move after the company announced its first large industrial investment – a 35 per cent stake in the Santa Cruz petroleum and natural gas project in Argentina for $27m in December 1991.

A year later, Marc Rich revealed that the property was producing 5,000 barrels of oil and 30m cubic feet of gas a day from 50 wells. Südelektra had recovered over a fifth of its investment, he said, and potential reserves were much larger than initially anticipated.

Still the shares remained in the doldrums. In fairness, net income in the year to 30 April 1993 at SFr17.4m ($13.5m) was not much higher than the SFr14.8m recorded two years earlier. The balance sheet had doubled to SFr187.9m, but much of that was due to the publication of consolidated figures and the realisation of capital gains, as well as the Santa Cruz cash flow.

Then in November last year, the group forecast it would report a marked increase in profits in the year to April 1994. By the time it revealed in early June that its 1993-94 net income was over SFr28m, a 65 per cent advance, the shares were trading at SFr1,320.

It launched a two-for-one rights issue at SFr1,000 to raise SFr150m to finance the purchase of two industrial properties developed by Glencore. One, Chromecorp Technology, operates a South African chrome smelter and the other, Forestal del Sur in Chile, produces wood chips.

Mr Strothotte says Südelektra will only invest in producing commodities that Glencore trades, and that the scale of its production will be well within Glencore's trading volumes.

He points out that Südelektra is debt-free, has $100m in liquid funds in its war chest and further authorised capital of SFr170m.

Bank of Scotland improves 81% midway

By John Gapper, Banking Editor

Bank of Scotland yesterday said it intended to continue building up capital in order to back future lending growth as it disclosed an 81 per cent rise in interim pre-tax profits to £117.6m ($185.8m) from £213.2m.

The bank achieved a 6 per cent ratio of core capital to risk-weighted assets – an international benchmark, although the 1988 Basle Accord minimum is 4 per cent – by doubling earnings per share to 10.9p from 5.4p.

However, on the London Stock Exchange its shares fell by 10p to close at 196p on disappointment with a 13.9 per cent rise in the interim dividend to 2.13p from 1.87p.

Mr Bruce Pattullo, the bank's governor, said it needed to retain earnings to be able to grow.

There was "clearly room to think" about the full-year dividend given the level of cover, five times earnings for the half year, but "the market knows that we need retentions to finance growth, and we are not going to do anything daft".

Unlike the big four English clearing banks, Bank of Scotland managed to increase lending by 4 per cent from the year-end to £23.6bn.

Most of the rise came in England, where the bank has increased its market share.

Net interest income rose by 13 per cent to £424.7m from £376.4m, including a £10.9m dividend from the flotation of the venture capital group 3i. The net interest margin widened to 2.71 per cent from 2.58 per cent.

Although margins on loans to large companies fell because of the re-emergence of competition among banks, the squeeze was offset by improved margins on wholesale deposits, and maintenance of mortgage margins.

The ratio of costs to income fell to 47.9 per cent from 48.9 per cent in spite of a 9 per cent rise in costs to £295.6m from £271m.

This included a £12.6m provision for payments to staff under a profit-sharing scheme. Specific bad-debt provisions fell to £109.8m from £157.9m, and there was a further general provision of £8.8m, compared with £16.5m. The bank said economic recovery should benefit provisions in the second half.

Non-interest income rose by 8 per cent to £198.3m, including a £11.9m rise to £81.9m in branch-based commissions in the clearing bank. Mr Pattullo said growing competition would limit the scope for further rises.

Continuing difficulties at Forthright Finance, its finance house, led to a fall in pre-tax profits at its Bank of Wales subsidiary to £0.3m from £0.4m, but the NWS Bank finance house increased profits to 48.3m from 37.6m.

Bank of Scotland is still considering trying to acquire a building society, which could provide cheaper retail funding. But Mr Pattullo said it had no need to find an outlet for excess capital, as did some banks.

Annualised pre-tax return on equity rose to 34.4 per cent from 19.2 per cent, and annualised return on assets rose to 1.4 per cent from 0.8 per cent.

The tier 1 capital ratio rose to 6 per cent from 5.8 per cent.

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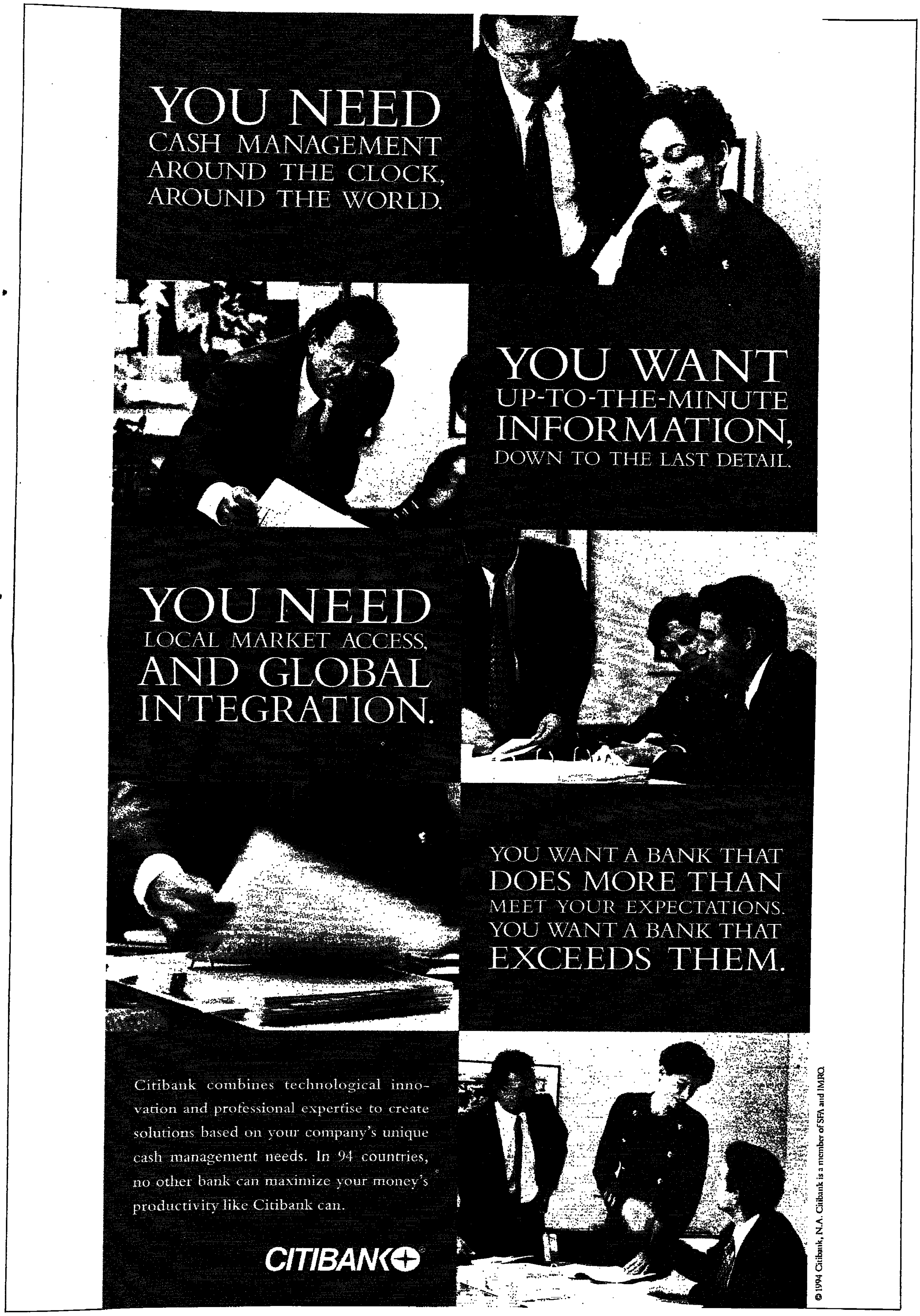
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YOU WANT
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DOWN TO THE LAST DETAIL.
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INTERNATIONAL COMPANIES AND FINANCE

Minister justifies the selection of Bouygues

By John Ridding in Paris

A consortium led by Bouygues was selected as the winning candidate for France's third mobile telephones network because the construction group had been most persistent in seeking to enter the market, Mr Gérard Longuet, minister for industry, post and telecommunications, said yesterday.

Mr Longuet said Alcatel Alsthom, the closest rival in the contest, was disadvantaged by it being an important supplier to France Télécom, which operates one of the existing mobile telecommunications networks. "Being already the biggest supplier it could not become the biggest competitor," he said.

His comments were part of an attempt to justify the process on which the decision was reached. Unlike in some other countries, the licence award was not based on cash offers but on the presentation of business plans, including technical, commercial and investment proposals.

Mr Longuet said the report by the managing director of the post and telecoms authority, which evaluated the bids from Bouygues, Alcatel and Lyonnaise des Eaux, the utilities group which was the third contender, would be published soon.

The selection process was sensitive because of the media and political influence of the three competitors.

Some observers claimed that Bouygues' position as controlling shareholder in TF1, the national television network, had given it an advantage with presidential elections due by mid-1995. "It is a far from negligible asset in a pre-election period," said Libération, the daily newspaper.

The rival groups, however, also wield influence. Alcatel owns two of France's leading weekly news magazines, Le Point and L'Express, while Mr Jerome Monod, chairman of Lyonnaise des Eaux, is a former aide to Mr Jacques Chirac, leader of the Gaullist RPR party, and a rival of Mr Edouard Balladur, the prime minister, for the conservative candidacy in the presidential elections.

The sensitivity of the decision prompted delays in announcing the winner and a demand for more information by Mr Balladur. Bouygues yesterday denied it had made any changes to its proposals.

Alcatel said yesterday it respected the decision and planned to use its resources for similar developments outside of France. Lyonnaise des Eaux said it would also continue with its development in the telecommunications sector.

Gérard Longuet: closest rival for licence was disadvantaged

Sleeping French market receives a wake-up call

The government is hoping that a third force will trigger stronger competition, writes John Ridding

Bouygues, the French construction group best known for public works and motorways, is taking a gamble on mobile telephones. The French government, in turn, is taking a gamble on Bouygues.

After two unsuccessful attempts to enter the French market, the company was on Tuesday declared the victor in a fierce contest for the third mobile telecoms licence.

The strength of the competition – which pitted Bouygues against two other French industrial giants, Alcatel Alsthom and Lyonnaise des Eaux – reflected the importance of the stakes. All three rivals saw the potential for a new lucrative market, while Bouygues regarded the licence as a central plank in its strategy of diversifying away from cyclical construction and property markets into media and telecommunications.

At the Ministry of Industry, Post and Telecommunications, the stakes are equally high. The new licence is regarded as a vital stimulus for France's lagging mobile telephones services and a means of narrowing the gap with its European neighbours. "It is a wake-up call for the sector," says one telecoms analyst in Paris.

For the objectives of Bouygues and the government to be satisfied, they must catchup.

At the end of last month, France counted 730,000 subscribers to mobile phone networks, less than half of the number in Italy and less than one-third of the 2.7m in the UK. But the French market has been showing a rapid growth rate.

France Télécom which, along with Générale des Eaux, operates the existing mobile networks, says it is winning between 1,500 and 1,800 subscribers a day, partly because of a cut in tariffs in June. The monthly subscription rate, for example, was reduced sharply, from FFr250 to FFr190.

In spite of this growth the penetration of mobile services remains well below the European average and is particularly low among the general public. "So far it has been the business community which have accounted for virtually all of the demand," says a ministry official.

Part of the explanation lies in the lack of competition. Mr Didier Pouillot, an analyst at Idate, the communications research institute, said the French market had, until recently, resembled a duopoly.

Another analyst adds: "There was little competition on prices, and SFR [the telecoms subsidiary of Générale des Eaux] has been slow to develop its infrastructure."

By introducing a third force, the government hopes to trigger stronger competition. Moreover, by selecting the DCS 1800 standard for the network, officials believe the new operator will be well positioned to lure the wider market. DCS 1800 is a digital standard which is a variant of the GSM system used by the existing French operators and by most international groups.

Industry observers and French officials claim DCS 1800 is well suited to consumers and urban areas because the terminals are lighter than other systems and it can operate from a network of small cellular stations.

Like other standards, however, the new network does not come cheap. According to its offer submission, Bouygues plans to invest about FFr11.7bn ($2.2bn) over the next 10 years, although the burden will be shared with its consortium partners. These comprise Cable & Wireless of the UK, US West, JC Decaux, the French property group, Banque Nationale de Paris and Paribas.

Most observers believe the high development costs should be more than matched by the potential returns. "Naturally the start-up costs will be high, and competition is likely to have become more intense by the time services are launched in 1996 or 1997," says one telecoms industry analyst. "But this is a strong growth market."

Just how strong is hard to predict. In its bid, Bouygues forecasts the number of mobile subscribers in France will rise to 1.5m at the end of next year and to 6.6m in the year 2000. By then it expects to hold 18.6 per cent of the market and receive annual revenues of FFr4.72bn.

Mr Philippe Montagner, chairman of Bouygues Telecom, said yesterday the project should break even at an operating level in about three years. The group's capital will be reinforced by a FFr1bn rights issue, which was announced yesterday.

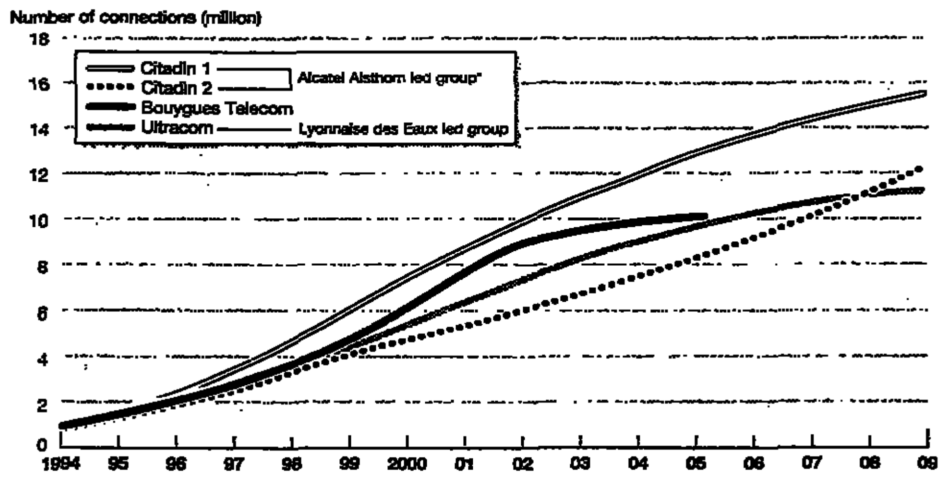
The projections are supported by several considerations. In particular, the licence grants exclusive rights for the standard to the five biggest cities for the next four years and a 15-year national mandate. "I can't see that it will be too hard to make a reasonable return," says one analyst, as investors pushed Bouygues shares up by FFr9 to FFr587.

For Bouygues, the longer-term returns should help offset the cyclical nature of its traditional construction activities. Last year, losses in its property activities prompted a fall in net profits, to FFr469m from FFr685m – justifying, says the group, its search for more stable, higher margin businesses.

The move into mobile telecommunications is not the first step. The company has a controlling 34 per cent stake in TF1, the national television network, finances films and operates a radio messaging network. But the award of the licence marks a watershed. "Bouygues is now firmly in the ranks of a diversified conglomerate, for better or for worse," says one construction industry analyst.

Most believe it is for the better. Although the cost of the project is expected to depress earnings growth from 1995, Bouygues should benefit from the non-cyclical nature of the business and its relatively high margins.

Forecast development of French mobile phone market



Source: Government report on third mobile licence *Difference reflects assumptions on connections and availability of frequencie

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	Analog	Digital	Total
France	438,000	286,930	724,930
Germany	749,247	1,452,452*	2,201,699
UK	2,527,687	193,000*	2,720,687
Italy	1,751,913	30,000	1,781,913

*Incl. PCN networks Source: Idate, Montpellier

Molson confirms plan to export beer to China

By Robert Gibbens in Montreal

Molson, the Canadian brewing, retailing and speciality chemicals group, confirmed it was entering the Chinese beer market with direct exports from its Canadian breweries.

Molson Breweries, the brewing unit owned 40 per cent by Molson, 40 per cent by Foster's of Australia and 20 per cent by Miller of the US, will start by exporting Molson "Ice" beer, a premium brand already selling successfully throughout North America, the UK and Australia.

The distributor will be American Beverage.

Mr Marshall Cohen, Molson chairman, said: "The move creates a beachhead for us in the world's second-biggest beer market, now growing at 20 per cent a year. We will be well positioned to take up further opportunities."

Molson did not confirm speculation that it would participate in a joint venture announced last June by Foster's and Wheelock of Hong Kong to build breweries in China.

John Labatt, Molson's Canadian rival, has also been examining the Chinese beer market. The group recently bought part of a Mexican brewer for C$720m (US$537.3m).

The Chinese market has proved extremely attractive to foreign brewery companies. China boasts some 800, mostly tiny, breweries, but there are no identifiable national brands with the possible exception of Tsingtao, which has just 2.5 per cent of the market.

Since 1984 China has jumped from seventh place to second behind the US as a beer producer with output in 1993 of 12.25m tonnes. The number of breweries in that time has doubled.

● Mr John Smith, General Motors president, yesterday announced the creation of a new post to oversee the company's operations in China, AP reports from Paris.

Mr Rudolph Schlais will be based in Beijing as president of GM China Operations, co-ordinating vehicle and component businesses, Mr Smith said.

"It's a huge, developing market and we've got to bring more resources into it," Mr Smith told journalists at the Paris Motor Show.

Moody's upgrades Unibank's debt rating

By Hilary Barnes in Copenhagen

The senior long-term debt of Unibank, Denmark's second largest commercial bank, has been upgraded by Moody's, the US credit rating agency, to A1 from A2.

Unibank suffered three years of substantial losses from 1990 to 1992 but returned to a net profit of DKr885m ($145.69m) in 1993.

In the first half of this year it made DKr207m after loss provisions had been cut to DKr950m from DKr1.54bn a year earlier.

The first-half performance was marred, however, by unrealised losses on the bond and share portfolio of DKr533m.

Moody's noted an improvement over the past few years in asset quality, earnings and capital, as well as progress in reducing what the agency described as the bank's "historically high expense base".

Unibank's recovery began when a new chief executive, Mr Thorleif Krarup, was brought in 1992 and immediately implemented a new round of cost-cutting measures.

Bayer plans worldwide generic drugs chain

By Daniel Green

Bayer, the German drugs and chemicals company, is planning to set up a chain of businesses around the world to sell unbranded, generic drugs. Generics is one of the fastest growing segments of the pharmaceuticals business.

Bayer is creating a joint venture with US generics specialist Schein. This is the first large deal with Schein since Bayer paid $310m for a 28.3 per cent stake in March.

Mr David Ebsworth, head of Bayer's worldwide business operations, said the joint venture would "be the basis of a global generics business".

He said that the six months since the stake was taken had showed there was a need for "dedicated manpower" to take Schein from its US base to other countries.

Initially, 10 to 15 people would be employed by the joint venture including specialists in the launch and marketing of drugs and in finding new products.

Schein already has a portfolio of more than 400 products, and is especially strong in central nervous system and heart drugs.

Mr Ebsworth said the company would make a priority of finding new antibiotics to manufacture and sell.

The acquisition of the Schein stake marked Bayer's entry into generics. The deal includes provision for the stake to be raised to 51 per cent "over the medium term", said Mr Ebsworth.

An increasing number of prescription drug companies is seeing generics as a business with potential for rapid growth. Many drugs patented in the 1970s are losing patent protection, opening up the market to companies such as Schein.

At the same time, governments are encouraging more generics manufacturers in the hope that increased competition will hold back prices.

Many other prescription drug companies have made a move into generics. Last month, BASF, Bayer's German rival, diversified its pharmaceuticals division Knoll into generics for the German market. The move was part of a strategy developed after Knoll had reported its first loss, and it is now looking for foreign partners.

Last year, Hoechst, the third of the big three German chemicals companies, paid $546m for a 51 per cent stake in Copley Pharmaceuticals, another US company, and in May this year, Bristol Myers Squibb bought 25 per cent of Azupharma, a German generics manufacturer.

Borden warns of losses in third quarter after charge

By Richard Tomkins in New York

Borden, the troubled US food group that last month agreed to a $2bn takeover by Kohlberg Kravis Roberts, the Wall Street investment firm, yesterday warned that it expected to report unquantified net losses for the third quarter after taking pre-tax charges of between $150m and $200m.

Borden's warning came as other parties continued to explore the possibility of launching an offer to rival KKR's agreed bid. Japonica Partners, a Rhode Island investment firm headed by Mr Paul Kazarian, said it was preparing a higher-value proposal for Borden shareholders and urged the company to halt further asset liquidations.

About $95m of the quarter's charges arose because proceeds from the disposal of discontinued operations were less than expected, Borden said.

Another $50m was attributable to "transaction fees and other expenses," mostly the fees Borden has agreed to pay KKR in connection with the takeover.

Borden said the third-quarter results would also include charges for the write-down of certain assets, although these would be offset by the reversal of an unused portion of the restructuring charges taken by the company last year.

Some of that planned restructuring would not take place following the deal with KKR, Borden said.

In last year's third quarter, the company reported net losses of $9.4m.

Thyssen Stahl to split units in attempt to boost results

By Michael Lindemann in Bonn

Thyssen Stahl, Germany's biggest steelmaker, yesterday said it was splitting its long products and wire divisions into smaller companies. It said the aim was to improve their reaction to market forces and start making profits again.

The decision follows similar moves by Krupp Hoesch, Germany's second biggest steel producer, which has hived off several divisions into independent subsidiaries, some of which will become joint ventures with Thyssen.

Both steelmakers argue that the market behaves differently for many steel products and that separate management is required if these areas are to recover from recent heavy losses.

The companies emerging from these changes will also not be subject to *Montanmitbestimmung*, a form of workers' co-determination in the German coal and steel industry which has made it more difficult for loss-making steel companies to make workers redundant.

Thyssen and Krupp Hoesch have said they will begin to reap the benefits of restructuring in their steel divisions this year but both still expect losses.

Three new companies dealing in long products will be created with sales of about DM1.5bn ($970m), around 15 per cent of Thyssen Stahl's 1993 turnover. EWK Edelstahl is the largest of the three with around 2,600 employees.

The wire division, Thyssen Draht, with a turnover of around DM300m, will also be split into three companies.

Saga to buy North Sea stake from Esso

By Karen Fossli in Oslo

Saga Petroleum, Norway's largest independent oil company, is to buy a 50 per cent stake in the undeveloped, 80m-barrel Norwegian North Sea Fenris oil field from Esso Exploration and Production Norway.

Statoil, the Norwegian state oil company, is the field's operator and holds the remaining 50 per cent stake. This gives it pre-emptive purchase rights until the end of this month to acquire the 50 per cent shareholding sought by Saga. The terms of the deal were not disclosed.

Analysts in Oslo say Statoil is unlikely to exercise these rights, because it would want to spread the estimated NKr3bn ($620m) costs to develop the field. No other Norwegian oil field is wholly-owned by one company, they also noted.

Fenris is in the southern part of the North Sea in 85m of water. A development plan for the field may be lodged with petroleum authorities in 1995 and, if approved, production could commence by the summer of 1996.

Several development schemes are being considered, but because the field is not close to existing infrastructure, the development would have to include oil processing and off-loading facilities.

The deal between Saga and Esso will also have to be approved by the oil and industry ministry, but this is not expected until Statoil declares its intention.

Lend Lease joins IBM in Australian IT venture

By Nikki Tait in Sydney

Lend Lease, the Australian financial services group, is linking with International Business Machines of the US to sell information technology services to Australia's business community.

They will offer services ranging from management of desktop systems to business recovery services.

The two companies estimate the current IT services market in Australia is worth about A$2bn (US$1.4bn) a year.

They aim to capture at least a 30 per cent share within the next five years.

The services will be marketed through a new joint venture company, Integrated Systems Solutions Corporation, which will be 65 per cent owned by IBM Australia and 35 per cent by Lend Lease.

No financial details of the partners' investments were revealed.

However, the new organisation will be a substantial business, employing some 1,300 people.

About 750 staff will come from IBM, and the balance from Lend Lease.

Under the terms of the agreement, both Lend Lease and IBM will source their own IT requirements from ISSC.

France takes first step in Renault share sale

By John Ridding in Paris

The French government has taken the first step in the partial privatisation of Renault, saying it was launching the process to determine a group of stable shareholders in the motor vehicle group.

The economy ministry said that from today, potential investors in the core shareholding group, who will hold a combined 5 per cent of Renault's shares, would be able to place their offers. The offer period will last for two weeks.

Investors in the so-called group of shareholding partners will each have to buy a minimum of 2.4m shares, about 1 per cent of the company's capital.

They will have to hold all the shares for three months and 80 per cent for the following 21 months. The sale of the 80 per cent of the shares will, however, be possible within the group of core shareholders.

Core shareholders are expected to include Renault's industrial partners, such as Elf Aquitaine, the oil group, and Lagardère Group, the electronics and communications concern. The share sale will take place after a FFr2bn ($377m) capital increase.

Overall, the French government plans to reduce its holding in Renault from 80 per cent to just above 50 per cent. The majority of the issue is to go to individuals and employees of the automobile group.

Mobil to restructure operations

Mobil Oil is to restructure its downstream operations, Reuter reports from Fairfax. The US oil group said it would restructure the operations around three areas – the Americas; Europe and Africa; and the Pacific Rim – in addition to its existing Middle East area.

The operations comprise its marketing, manufacturing, and supply and trading activities, as well as its Middle East and Marine Transportation unit.

Mobil said the new structure, which will be introduced on December 1, would further strengthen its integrated downstream organisation.

In are Mr Robert McCool, executive vice-president, US, will become executive vice-president, Americas.

Mobil's Latin American downstream activities will be added to Mr McCool's current responsibilities.

Mr William Walsh, president, Mobil Europe, will become vice-president, Europe and Africa.

Mr Harold Cramer, president, Mobil South, will become vice-president, Pacific Rim.

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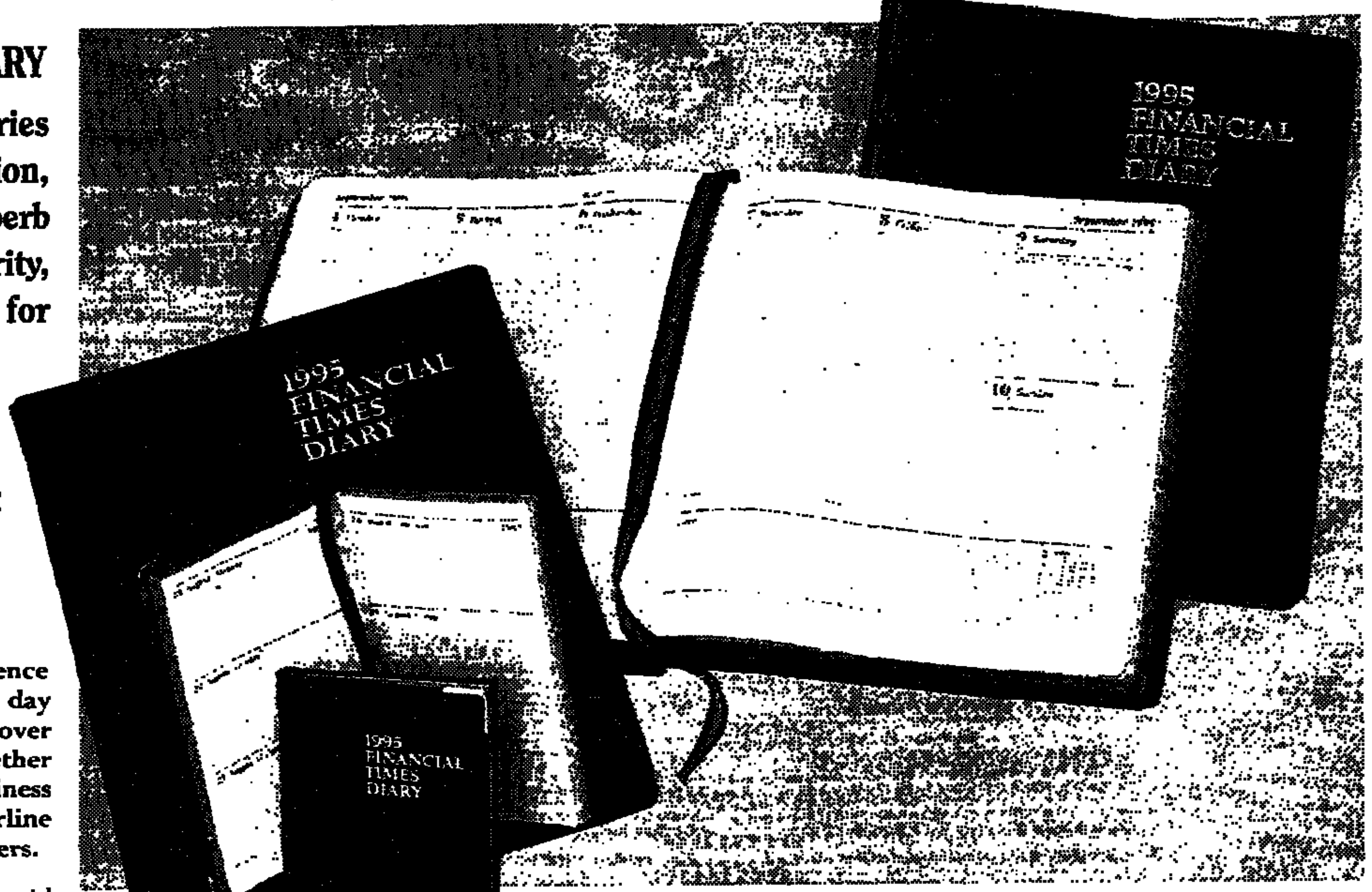

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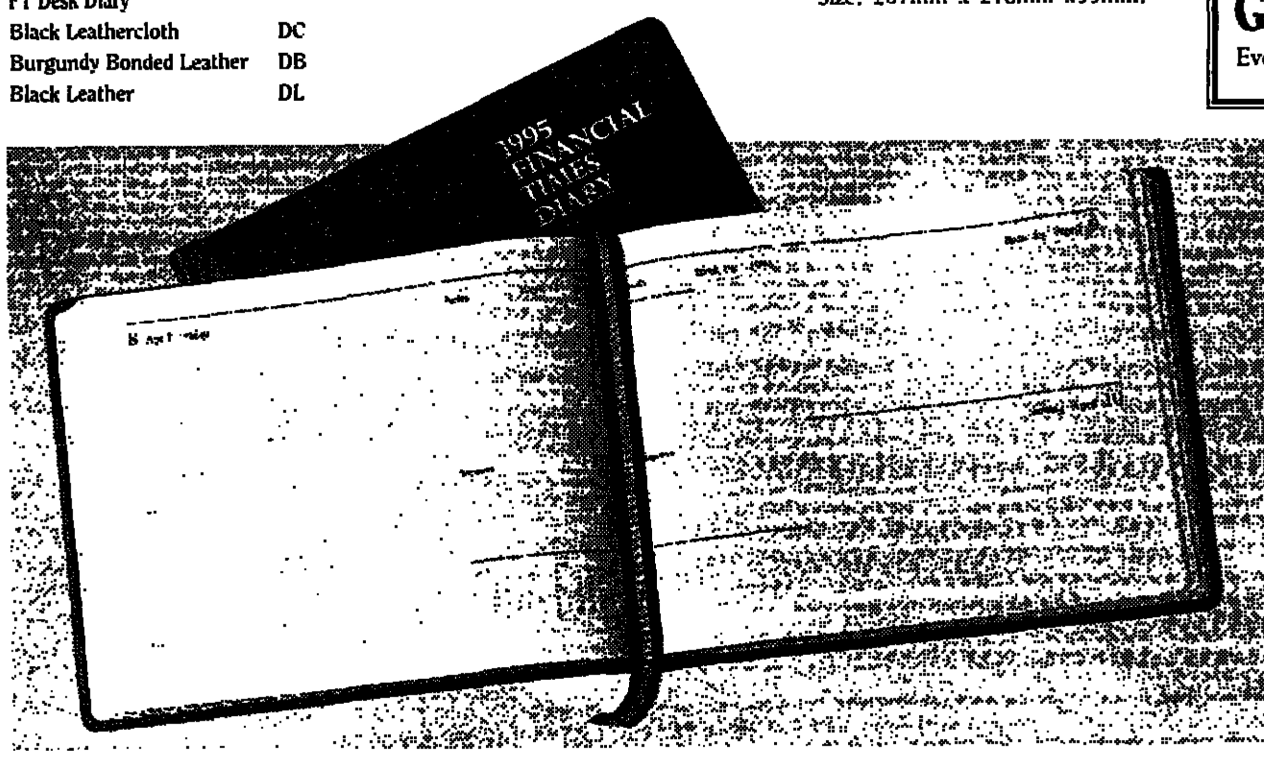

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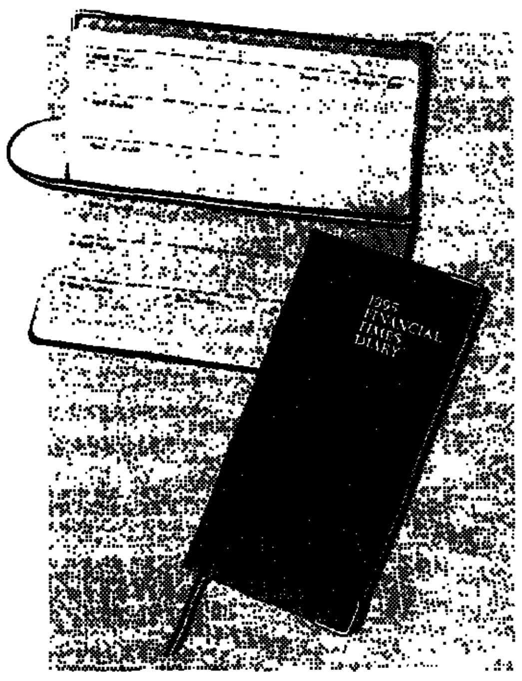

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INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Rabobank to pay A$102m for rural bank in Australia

By Nikki Tait in Sydney

Rabobank, the large Netherlands-based co-operative banking group which specialises in the food and agribusiness sector, is to buy the Primary Industry Bank of Australia for A$102m (US$75.5m).

PIBA, which is being sold by the state-owned Bank of Western Australia (BankWest) as a prelude to privatisation next year, is a significant lender to the country's rural sector. Its assets at the end of March were A$1.83bn, and its main focus recently has been the provision of rural mortgage loans. It has operations in Australia and New Zealand.

In spite of the difficulties experienced by farmers in the 1990s, PIBA has been consistently profitable, with after-tax operating profit in the year ended September 1993 amounting to A$11.4m. In the six months to the end of March it made A$9.22m.

Yesterday, Rabobank said the acquisition formed part of its strategy of building up operations in the Asian region.

The Dutch organisation, whose 1993 assets stood at about Fl 253bn ($145.4bn), has offices in Singapore, Hong Kong and Indonesia, and expects to add a presence in Thailand and Malaysia. It also plans to open an office in Shanghai in a few weeks.

Rabobank said it had "a special interest in Australia". It sees the country as a low-cost agricultural producer and a potential beneficiary of the Uruguay Round in the Gatt trade negotiations, which will generally lower trade restrictions.

BankWest, which bought PIBA in 1987 when it was a much smaller organisation, said the proceeds from the sale would be used to bolster its capital position ahead of privatisation. It said it "made strategic sense for PIBA to be owned by a specialist agricultural bank with the capacity to sustain the levels of wholesale funding required for future growth".

● Standard & Poor's, the US-based rating agency, immediately lifted its credit rating for PIBA's long-term debt to AA+ from A, and the short-term rating to A1+ from A1.

Academics open wounds of MG Corp's oil crisis

The oddest risk management episode of the past year has become a little odder. When German metals and engineering group Metallgesellschaft nearly succumbed to a liquidity crisis last December, it blamed the problems on the activities of its US subsidiary, MG Corp, in the oil derivatives markets. A supposed hedging strategy had blown up spectacularly, leading to losses of more than $1bn.

The MG story refuses to rest in peace. In recent days, a revisionist view of the saga has been gaining currency. Were MG Corp's risk managers in fact right all along? And was it a panic by the group's board – along with the New York Mercantile Exchange (Nymex) and US regulators, not to mention a possible conspiracy by the German group's bankers – that prompted the losses?

These questions have been raised by US academics and fuelled by speculation that Deutsche Bank, Metallgesellschaft's lead banker, used the oil trading episode as an excuse to exert more direct influence over the group.

MG's problems arose from its use of derivatives – mostly futures – to hedge long-term fixed-price contracts to supply oil products, mainly to small independent petrol stations around the US. The aim was to protect MG from a rise in the oil price.

The problems started last autumn as the oil price plunged. A lower oil price might well add to MG's profits over the long term – with oil products sold at a higher, fixed rate – but in the short term, it faced two difficulties. One was that the futures contracts were falling in value, so MG had to put up additional margin payments with Nymex. With futures positions equivalent to about 160m barrels of oil, these figures were not small: every $1 fall in the price of a barrel of oil translated into $160m of extra margin.

The second problem was a little more esoteric. The oil yield curve – the relationship between short-term and long-term oil prices – moved against the company. Traditionally, short-term oil prices had been above longer-term ones, a situation known in the market as a "contango". But the curve flipped in 1992, with short-term prices sliding lower. This exposed MG to losses every time it rolled over its futures contracts.

DERIVATIVES

The near-term contracts it sold were worth less than the longer contracts it replaced them with. Meanwhile, at the long-term end of the oil curve, prices hardly moved, so the short-term losses were not being matched by profits on the underlying supply contracts.

The size of MG's market position and the steepness of the oil price slide eventually precipitated a disaster. MG's bankers had to agree to an emergency line of credit, and the Metallgesellschaft management was sacked. Deutsche Bank sent Ms Nancy Kropp, an experienced fire-fighter it had used in such situations before, to sort out the mess. Her response was to liquidate many of MG's positions.

This is where the revisionism comes in. Should Ms Kropp have kept rolling the futures positions forward? Eventually, surely, the losses would be made up by corresponding profits on the oil supply contracts (or futures prices would bounce back, as they have done this year). Ms Kropp's approach served to turn paper losses into real ones.

This argument was murmured by a number of derivatives experts at the time. Now, it has gained wider circulation in academia. It is floated in a paper in one journal, The International Economy, written by Mr Steven Hanke, professor of applied economics at John Hopkins University, and Mr Christopher Culp, a doctoral candidate at the University of Chicago. The views are expanded on in a longer, unpublished paper by Mr Culp and Mr Merton Miller who, among other things, is a Nobel Laureate and director of the Chicago Mercantile Exchange.

According to an early draft of the Culp/Miller paper, MG's "problem was not with its derivatives group, but more likely with its supervisory board and supporting banks, who may not have understood the hedging strategy and forced the premature liquidation of [MG's] hedge positions". Ms Kropp's team "might not have fully understood the nature of the original hedging strategy – not because of inadequate training and expertise, but simply because the strategy was complex".

Comments like these have drawn strong criticism in the "real world" of trading rooms, derivatives exchanges and regulators. "Naive is a really good word [to describe the academic's criticisms]," says one outsider who was involved in sorting out the MG mess. And an oil derivatives expert who has followed the case closely at another trading house says of Ms Kropp's approach: "She did a good job."

"People should only put on positions which they can afford to margin – the cost of funds is a real consideration," one person close to the MG problems says.

Mr Miller has recently received a visit in Chicago from two Metallgesellschaft representatives, aiming to "persuade" him to reconsider his views. A heavy-handed bid by the German group to stall wider debate on the subject, perhaps? The saga is certain to run on: a revised version of Mr Miller's paper with Mr Culp is due to be published shortly, and will no doubt be pored over for signs of recantation.

Richard Waters

Japanese groups incur tax penalty

By Gerard Baker in Tokyo

Three Japanese trading companies have been ordered to pay penalty taxes totalling Y2.3bn ($23m) for failure to declare their incomes properly for the last three years.

The Osaka Regional Taxation Bureau said Marubeni Corporation, Nissho Iwai Corporation and Sumitomo Corporation between them misrepresented corporate expenditures of Y4.9bn.

The companies reported that sum to the bureau as commissions for hiring business consultants related to transactions with oil-producing countries. The bureau noted, however, that the figures were not related to individual deals, and concluded that the companies fabricated the commissions to lower their total incomes and evade paying corporate taxes. The commissions were not regarded as costs, but as social expenses or payments for unknown purposes.

Marubeni failed to declare Y2.1bn, Nissho Iwai Y1.6bn and Sumitomo Y1.2bn. Penalty taxes of Y980m, Y770m and Y590m were imposed.

Sharp rise in profits at Guoco

By Louise Lucas in Hong Kong

Guoco Group, the Hong Kong-based financial services and garment company controlled by the Malaysian Quek family, yesterday reported a sharp rise in net profits, to HK$1.3bn (US$168.4m) from HK$573.8m for the year to June 30.

The group made HK$309m from investment and property sales, which were taken above the line. Earnings did not include transfers to inner reserves, although this practice – now widespread among the colony's banks – is being phased out.

Earnings per share rose to HK$3.43 from HK$1.64. A final dividend of 45 cents is recommended. This, taken with the interim dividend, marks a 23 per cent increase on the previous year's payout.

The result was boosted by Dao Heng Bank, the group's main operating subsidiary which was spun off in a separate listing last December. The group, which has 90 branches in Hong Kong, saw net profits surge to HK$1bn from HK$400.8m.

Surge at HK property developer

By Louise Lucas

Henderson Land Development Company, one of Hong Kong's largest property developers, yesterday reported a 51 per cent advance in net profits, to HK$6.04bn (US$782.4m) for the year to June 30, up from HK$4bn the previous year and comfortably ahead of market expectations.

Directors are marking the results with a cash bonus of HK$1 a share, on top of a proposed HK$1.20 dividend. This will bring the total for the year to HK$1.60, an increase of 45 per cent over the previous year's payout.

Earnings per share rose in line with total earnings, to HK$3.78 from HK$2.51.

The Henderson Investment subsidiary reported a 16 per cent increase in net profits, to HK$1.13bn from HK$977m, with earnings per share improving 9 per cent to 47 cents from 43 cents.

Shareholders are to receive a final dividend of 20 cents for a total of 29 cents, an increase of 16 per cent on the previous year. There will also be a warrant bonus issue of one warrant for every 10 shares held.

Mr Lee Shau-kee, chairman, said credit-tightening measures in China had triggered a temporary slowdown in the local residential property market early in the financial year.

The subsequent recovery was tempered in March by news of Hong Kong government measures to curb home prices. Mr Lee said these moves, twinned with a further tightening on lending from the banks, had sent home prices tumbling by between 15 per cent and 20 per cent and dampened turnover.

INTERNATIONAL CAPITAL MARKETS

Treasuries retreat continues in wake of order data

By Frank McGurty in New York and Conner Middelmann in London

The US Treasury market back-pedalled again yesterday morning after fresh evidence that the Federal Reserve has not curbed economic growth.

By midday, the benchmark 30-year government bond was down $\frac{5}{16}$ at 95, with the yield rising to 7.932 per cent. On the short end, the two-year note was down $\frac{1}{16}$ at 99¾, to yield 6.687 per cent.

In early activity, bonds showed little movement as traders awaited the government's figures on August factory orders.

The news, which was released at 10am, was decidedly unfavourable. The Commerce Department announced a 4.4 per cent gain, after a 2.0 per cent drop the previous month. Economists were expecting a smaller increase of about 3.5 per cent.

Prices plunged on the data, led by the inflation-sensitive long bond. Traders were particularly disturbed by a surprising 2.5 per cent jump in orders of non-durable goods, an area of slow growth in recent months.

It was another in a series of reports indicating that the Fed had not done enough to slow the economy. The data seemed to assure the central bank would increase short-term interest rates for the sixth time in the current cycle of tightenings.

Against this backdrop, the fresh declines in bonds put the market in a precarious position. With Friday's critical employment report fast approaching, the yield on the long bond was hovering just under the 8.00 per cent level, an important psychological barrier which might contain any fall in bond prices on stronger-than-expected jobs data.

GOVERNMENT BONDS

The consensus of analysts was that non-farm payrolls had grown by about 250,000 workers last month. But in view of the string of negative surprises in recent weeks, traders are braced for the worst. Many were speculating that the big jump in payrolls could motivate the Fed to lift rates immediately.

■ *European government bonds* opened on a weaker note after US bonds had fallen overnight and tumbled further in the afternoon when Treasuries slid to new lows on stronger than expected economic data.

The eruption of renewed political turmoil in Italy, pre-election jitters in Germany and sharp declines in many equity markets further depressed bonds.

■ Italian bonds nosedived on fears that an investigation into one of the Italian prime minister's television holdings may implicate Silvio Berlusconi himself. In late trading the December BTP future on Liffe stood at 97.48, down 1.54 point, after hitting a low of 96.90.

Bond market participants now worry that the flare-up of political tensions will complicate the passage of the 1995 budget in parliament by the end of the year. "Given that the budget was already not received very enthusiastically by the market, this worsens the prospects," said Mr José Luis Alzola, an economist at Salomon Brothers.

Although he said that yesterday's sell-off could be followed by a technical correction, he added: "I am sceptical that the spread over bunds can approach, let alone breach, 400 basis points." The gap widened to 452 basis points yesterday.

■ UK gilts remained surprisingly calm in the face of tumbling markets, outperforming most of their European counterparts and shrugging off a sharp fall in the FT-SE 100 index.

The December long gilt futures contract in Liffe eased by ¼ to 99$\frac{1}{32}$, and the 10-year yield gap over German bunds narrowed to 133 basis points.

According to Mr Ian Shepherdson, UK economist at Midland Global Markets, gilts have "perked up" since the recent base rate rise, helped in large part by the strength of sterling.

■ German bunds shed about ⅓ point in sympathy with the drop in US Treasuries.

Survey highlights underwriting role of Japanese banks

By Gerard Baker in Tokyo

Newly-established subsidiaries of Japanese commercial banks underwrote 6.8 per cent of domestic straight bonds issued in the half-year to September, according to a survey published yesterday.

The report, by Thomson Corporation, the US financial news service, showed the companies concluded 123 deals, worth Y111.6bn, for underwriting such bonds in the period. The companies took a 4.7 per cent share in the underwriting of all corporate bonds, with 395 deals worth Y178.7bn.

The report gives the first clear picture of the bond underwriting market since it was liberalised last year. Previously, under rules that strictly separated securities and banking operations, banks were not permitted to engage in mainstream securities business. Last year, however, rule changes allowed banks to set up subsidiaries which may underwrite bonds, but which are barred from the main area of securities business – equity trading.

Existing brokers have expressed concern at the potential erosion of their business by the banks, but the figures published yesterday suggest that so far the encroachment by the seven new bank subsidiaries has been limited. However, next month, six of Japan's largest commercial banks will launch their own units and the brokers' share is certain to fall more dramatically.

In the six months to the end of September, IBJ Securities led the way among the newcomers with 99 contracts worth Y83.3bn.

VSNL deal awaits government approval

By Martin Brice

The long-awaited international equity offering from VSNL, the Indian international telecommunications monopoly, is to be delayed pending government approval, bankers said yesterday.

The delay is likely to be some weeks while an Indian cabinet committee considers the pricing of the deal, which is led by Kleinwort Benson, Jardine Fleming and Salomon Brothers.

This delay follows an earlier postponement in May, when market conditions changed just before the issue was launched, and the minimum price of Rs1,400 a share was seen as too expensive.

The deal was revived last week following the successful issue by Pakistan Telecom which attracted $900m from international investors. Following its handling of that deal, Jardine Fleming was added to the mandate for VSNL, which is 85-per cent owned by the Indian government.

Bankers believe there is currently good demand at the lower price of between Rs1,100 and Rs1,200, which would raise about $650m, but the government needs to tap that demand before market conditions change.

The BSE 30-share index, which closed at 4,406 last Wednesday, had fallen to around 4,350 yesterday.

The delay may highlight the decision-making processes of the government, widely held to blame for the first postponement. But one banker, not linked to the deal, said the government had made other difficult financial decisions. He said: "The decision-making process which corporate financiers and bankers demand runs into hours and minutes. But it can take a week or two to get through the necessary processes."

World Bank global well received

By Graham Bowley

The World Bank's DM2bn global offering enjoyed a generally warm reception yesterday in spite of difficult market conditions in Europe and the US.

INTERNATIONAL BONDS

Lead managers Deutsche Bank and Morgan Stanley said the deal had been oversubscribed, and syndicate managers reported significant demand from a wide spectrum of quality investors including central banks and blue chip clients across the world.

The offering of five-year bonds was launched on Tuesday and was priced yesterday at a coupon of 7.25 per cent and a reoffer price of 99.432.

Traders said that many investors were attracted by what they considered a generous spread of 15 basis points over German government bonds.

"There was a lot of switch trade with investors moving out along the yield curve from the existing D-Mark bonds in the three- to four-year area, which are trading tight to bunds," said one syndicate official.

The success of the offering was also related to the strength of the D-Mark, dealers said.

"Some investors have taken a bullish stance on the currency and feel confident about holding D-Marks," one dealer said.

Elsewhere in the eurobond market, dealers reported that US hedge funds had sold a significant amount of long-dated bonds over the last few days as they switched to shorter-dated securities.

Abbey National has filed a shelf registration with the Securities and Exchange Commission in the US which will allow it to issue up to $3bn of medium-term notes.

● Mr Fernando Cossio, the Bolivian finance minister, said that Bolivia planned to return to the capital markets in 1995 with a medium-term bond which would probably be for $100m, Reuter reports from Madrid. He said that Bolivia might also seek a credit rating next year to improve Bolivian companies' access to international debt markets.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Crédit Local de France	200	7.25	99.575R	Nov.1997	0.1875R	+17(6½%-97)	Bear Stearns/ IBJ Intl.
Philippine National Bank‡	195	(a)	99.60R	Oct.1997	0.50R	-	Citibank/Salomon Brothers
Finnish Export Credit★	100	zero	87.23R	Nov.1996	undiscl.	-	Daiwa Europe/ LTCB Intl.
ING Bank, San Paolo Branch	50	10.25#	99.70R	Oct.1997	99.70R	+340(6½%-97)	ING Bank
SWISS FRANCS							
Johnson & Johnson New Jersey	150	5.375	102.20	Nov.1997	1.50	-	Merrill Lynch Capl.Mkts.
Ford Credit Europe	130	5.75	101.85	Nov.1998	1.75	-	Banque Paribas(Suisse)
LUXEMBOURG FRANCS							
Commerzbank Intl. Lux.	2bn	8.625	102.625	Nov.2004	2.00	-	Kredietbank
PESETAS							
European Investment Bank‡	20bn	(b)	99.90R	Dec.1999	0.25R	-	Banco Central Hispano

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) 3-mth Libor +150bp. b) 3-mth Libor +20bp, max 13%. Short 1st coupon.

Matsushita sets terms for Y200bn issues

By Emiko Terazono in Tokyo

Matsushita Electric Industrial, Japan's largest consumer electronics group, yesterday set the coupon rates and conversion prices for its two domestic convertible bond issues totalling Y200bn scheduled to be launched next week.

Concerns of over-supply due to the company's large lot issuance has weighed on the Tokyo stock market during the past few weeks, but Matsushita officials said it needed the funds to invest in its expanding multimedia business and overseas operations.

With investors already worried that Japan Tobacco's Y900bn flotation scheduled for October 27 may drain liquidity from the stock market, Matsushita's Y200bn issuance could have adverse effects on the already weak stock market.

Matsushita said it would issue eight-year and 10-year unsecured convertible bonds in lots of Y100bn, with coupon rates of 1.3 per cent and 1.4 per cent respectively. The conversion price for both issues has been set at Y1,620. The eight-year issue will be convertible from November 1 to March 28 2002, with the 10-year issue being convertible from the same date to March 30 2004.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	92.6000	+0.580	10.20	10.30	9.51
Belgium		7.250	04/04	91.3000	−0.200	8.61	8.45	8.68
Canada *		8.500	06/04	83.8500	−0.850	9.04	8.87	8.99
Denmark		7.000	12/04	86.0500	−0.600	9.16	8.95	9.16
France	BTAN	8.000	05/98	101.0000	−0.250	7.66	7.43	7.39
	OAT	5.500	04/04	81.9700	−0.530	8.30	8.05	8.02
Germany Treu		7.500	09/04	97.9700	−0.490	7.80	7.52	7.52
Italy		8.500	08/04	80.1700	−0.830	11.99†	11.38	12.17
Japan	No 119	4.800	06/99	103.1090	−0.210	4.02	3.83	3.95
		4.100	12/03	96.2370	−0.590	4.69	4.49	4.57
Netherlands		5.750	01/04	87.3400	−0.360	7.71	7.45	7.49
Spain		8.000	05/04	81.0800	−0.470	11.31	10.97	11.36
UK Gilts		6.000	08/99	89–11	−1/32	8.73	8.62	8.46
		6.750	11/04	85–22	−7/32	8.92	8.82	8.68
		9.000	10/08	101–03	−7/32	8.85	8.78	8.69
US Treasury *		7.250	08/04	96–17	−21/32	7.76	7.56	7.29
		7.500	11/24	94–28	−32/32	7.95	7.80	7.57
ECU (French Govt)		6.000	04/04	82.3900	−0.410	8.79	8.58	8.61

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — *Treasury Bills and Bond Yields*

		One month	4.52	Two year	6.70
Prime rate	7¾	Two month	4.89	Three year	7.00
Broker loan rate	6½	Three month	5.08	Five year	7.41
Fed funds	4¾	Six month	5.61	10-year	7.76
Fed funds at intervention	-	One year	6.04	30-year	7.95

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	109.92	109.66	-0.62	110.00	109.60	156,665	131,320
Mar	109.20	108.92	-0.60	109.20	108.86	1,228	7,591
Jun	108.46	108.18	-0.60	108.46	108.46	2	354

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
110	0.78	1.28	-	1.12	1.60	-
111	0.40	0.84	-	1.69	2.16	-
112	0.20	0.52	-	-	2.82	-
113	0.08	0.30	-	-	-	-
114	0.02	0.17	-	-	4.39	-

Est. vol. total, Calls 37,238 Puts 35,056 . Previous day's open int., Calls 224,084 Puts 309,193.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	88.25	87.90	-0.44	88.25	87.85	127324	154645
Mar	87.30	87.22	-0.43	87.36	87.30	395	1847

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
8750	0.97	1.38	1.21	1.55	0.57	0.98	1.49	1.83
8800	0.70	1.10	0.96	1.31	0.80	1.20	1.74	2.09
8850	0.47	0.86	0.76	1.09	1.07	1.46	2.04	2.37

Est. vol. total, Calls 35544 Puts 12958. Previous day's open int., Calls 216887 Puts 204364

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lire 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.60	97.31	-1.71	98.70	96.90	62597	84951
Mar	96.85	96.66	-1.71	96.85	96.75	16	1235

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9700	2.11	2.92	1.80	3.26
9750	1.84	2.69	2.03	3.53
9800	1.59	2.47	2.28	3.81

Est. vol. total, Calls 5077 Puts 3413. Previous day's open int., Calls 16004 Puts 22185

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.05	85.96	-0.45	86.12	85.75	33,255	75,475

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98-29	99-01	-0-08	99-12	98-26	54350	99048
Mar		98-13	-0-08			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
99	1-50	2-32	1-48	3-06
100	1-19	2-05	2-17	3-43
101	0-58	1-46	2-56	4-20

Est. vol. total, Calls 2120 Puts 3247. Previous day's open int., Calls 56904 Puts 37593

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	79.34	79.24	-0.38	79.36	79.18	1,302	8,587

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	98-11	98-08	-0-03	98-12	98-06	232,180	398,009
Mar	97-20	97-18	-0-03	97-22	97-17	686	26,172
Jun	-	97-01	-	-	-	15	10,917

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	107.39			107.44	107.25	2168	0
Mar	106.55			106.55	106.55	20	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Oct 5	Day's change %	Tue Oct 4	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	119.31	+0.04	119.27	2.01	8.39
2 5-15 years (22)	136.75	−0.17	136.98	1.58	10.29
3 Over 15 years (8)	152.68	−0.30	153.14	2.24	9.81
4 Irredeemables (6)	174.77	−0.12	174.98	3.63	8.83
5 All stocks (60)	134.80	−0.12	134.96	1.88	9.62

Yields	Low coupon Oct 5	Low coupon Oct 4	Low coupon Yr. ago	Medium coupon Oct 5	Medium coupon Oct 4	Medium coupon Yr. ago	High coupon Oct 5	High coupon Oct 4	High coupon Yr. ago
5 yrs	8.78	8.78	6.22	8.86	8.84	6.47	9.03	9.03	6.67
15 yrs	8.75	8.71	7.01	8.90	8.86	7.15	9.12	9.08	7.37
20 yrs	8.66	8.65	7.14	8.90	8.86	7.21	8.98	8.96	7.39
Irred.†	8.74	8.73	7.26						

Index-linked	Wed Oct 5	Day's change %	Tue Oct 4	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	184.54	−0.05	184.63	0.03	6.07
7 Over 5 years (11)	172.37	−0.16	172.64	0.86	3.95
8 All stocks (13)	172.76	−0.15	173.01	0.77	4.04

	Inflation 5% Oct 5	Inflation 5% Oct 4	Inflation 5% Yr. ago	Inflation 10% Oct 5	Inflation 10% Oct 4	Inflation 10% Yr. ago
Up to 5 yrs	4.11	4.06	2.53	3.00	2.97	1.74
Over 5 yrs	3.89	3.88	3.14	3.70	3.69	2.97

Debentures and Loans	Wed Oct 5	Day's change %	Tue Oct 4	Accrued interest	xd adj. ytd	5 year yield Oct 5	5 year yield Oct 4	5 year yield Yr. ago	15 year yield Oct 5	15 year yield Oct 4	15 year yield Yr. ago	25 year yield Oct 5	25 year yield Oct 4	25 year yield Yr. ago
9 Debs & Loans (76)	125.25	−0.13	125.41	1.91	8.89	9.90	9.89	7.72	9.82	9.81	8.08	9.75	9.73	8.24

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Oct 5	Oct 4	Oct 3	Sep 30	Sep 29	Yr ago	High*	Low*
Govt. Secs. (UK)	90.16	90.22	90.04	90.64	90.30	102.54	107.04	89.54
Fixed Interest	106.96	106.93	107.17	107.34	107.29	123.47	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Oct 4	Oct 3	Sep 30	Sep 29	Sep 28
Gilt Edged bargains	89.0	80.2	122.2	111.7	137.9
5-day average	104.2	111.3	115.5	114.2	116.4

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or −	1994 High	1994 Low
Shorts (Lives up to Five Years)						
[illegible]						

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 5

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					

COMPANY NEWS: UK

Increased demand and improved prices behind 78% advance

Hewden Stuart surges to £16m

By Andrew Bolger

Hewden Stuart, the UK's biggest independent plant hire group, said increased demand and improved prices had helped it to increase pre-tax profits by 78 per cent from £9.1m to £16.2m in the six months to July 31.

Sir Matthew Goodwin, chairman, said trading was continuing at a high level and he expected that pre-tax profits in the second half would be "substantially ahead" of the £10m achieved last time.

Analysts upgraded their full-year forecasts from £27m to about £32m.

Turnover rose by 40 per cent to £128m (£91.7m). The group said recovery from recession had increased the plant hire division's contribution by 39 per cent to £81.6m, while the merchandising division's input rose 40 per cent to £46.4m.

The crane hire division saw less buoyant conditions than elsewhere, but moved from losses to an operating profit of £200,000.

Sir Matthew said trading was slow in Scotland, but became stronger further south. The group had kept open all but one of the 41 depots acquired last year when it paid £11m for the Hireplant assets of BET.

In spite of the sharp increase in turnover, the total number of employees increased only marginally, from 3,650 to 3,786.

Capital expenditure in the first half exceeded £34m, bringing to £100m investment in the past 18 months. Mr Sandy Findlay, chief executive, said investment of not less than £25m was expected in the second half and about £60m next year.

The investment came out of cashflow of £35m. The group said that by the summer cashflow was running at more than £1.5m per week.

Tony Andrews

Sir Matthew Goodwin (left) and Sandy Findlay: expect profits in second half to be 'substantially ahead' of last time's £10m

The chairman said: "The rate of our cashflow is such that we will be able to continue to fund our programme from the group resources, thus ensuring that our policy of avoiding dilution of shareholders' interests by rights issues is maintained."

Earnings increased by 65 per cent to 4.94p (3p). The interim dividend was 0.825p (0.75p).

● COMMENT

Sir Matthew was understandably jubilant over these results, which he described as "quite superb" and promised analysts "you ain't seen anything yet." The strong recovery in profitability vindicates the group's decision last summer to step up its investment in new plant. The performance is all the more impressive considering that there are still areas of weakness – such as crane towers and site accommodation. The shares were unchanged yesterday at 146½p – a considerable achievement on a day the market plunged. Forecast full-year profits of £32m put the shares on a prospective multiple of 15. The 8 per cent premium to the market does not look excessive for a group with this sort of track record and prospects.

Austin Reed doubles to £1.84m

By Peter Pearse

Austin Reed, the clothing group, doubled pre-tax profits from a restated £930,000 to £1.84m in the 28 weeks to August 13 on the back of maintained income from licensing and more than trebled profits from the retail operations.

Turnover grew 12 per cent to £34.5m (£30.7m). Mr Chris Thomson, finance director, said the results had beaten many expectations, adding that the current strategy – in place for 18 months – had borne fruit for the past three seasons.

He said that the heavily researched "revitalising" of the product range was targeting customers better and had broadened the customer base. That, combined with the use of different retail formats for different locations and clientele, was helping the group lose its slightly outmoded image.

A force behind the retail advance – to £523,000 (£140,000) on turnover of £26.1m (£23.6m) – was the shop format called Austin Reed Sportsman, which sells leisurewear. In the spring a women's leisurewear line was launched.

The group has 50 outlets, though some – such as those in three of Heathrow airport's terminals – are as small as 300 to 400 sq ft.

Profits from manufacturing for other retailers rose to £486,000 (£258,000) on turnover ahead from £5.66m to £7.06m. Mr Thomson said that sales in Switzerland, Italy and Germany lost during the recession were now being regained.

Borrowings were cut to £6.4m (£10.4m) and are expected to be down to £3m by the year-end. Interest charges were halved at £306,000 (£601,000). Capital expenditure on store refurbishment will total £4m for the year, against £2.5m.

Earnings were 3.9p (2p) per share and the interim dividend is held at 2p.

Coats buys Charterhall offshoot from receiver

By Richard Wolffe

Coats Viyella, the UK's largest clothing and textiles company, yesterday acquired Corah, the Leicester-based producer of underwear and knitted fabrics, for a consideration believed to be about £25m cash.

Coats has been negotiating since May to buy Corah from the receiver to Charterhall, Corah's holding company. Charterhall went into receivership in 1990 after its Australian owner, Westmex, went into liquidation.

The acquisition, which will be finalised following the preparation of completed accounts, comes after Coats identified clothing as one of its key growth sectors at the announcement of its interim results last month.

Corah, which supplies Marks and Spencer, expects pre-tax profits to be at least £3.8m on turnover of about £63m for the year to October 2. Net assets are roughly £5m, after writing off debts.

The company will join Coats' clothing division, which at the interim stage reported reduced operating profits of £3.3m (£5.2m) after closing a uniform factory in South Wales.

Infostructure launch postponed

By Bethan Hutton

BZW and Société Générale Strauss Turnbull are postponing the launch of an investment trust because of the poor market for new issues.

The Infostructure Trust, which would invest mostly in companies quoted on emerging stock markets and operate across the information industry, was to have been launched with a public offer for subscription opening in the last week of October.

The offer is now likely to take place in the new year.

Hogg pays £13m for Inchcape operations

By Andrew Bolger

Hogg Robinson, the travel, transport and financial services group, has paid £13m for the whole of the UK and 50 per cent of the Hong Kong-based financial services operations of Bain Hogg Group, the insurance broking arm of Inchcape.

Inchcape bought the Hogg Group, an insurance broker, for £176.6m in April and merged it with its own insurance broking subsidiary, Bain Clarkson, renaming the enlarged company Bain Hogg.

The Bain Hogg activities being acquired are almost identical to those of Hogg Robinson Financial Services: employee benefits, pensions advice and financial counselling.

Last year the UK businesses made pre-tax profits of £1.2m on sales of £17m, while the Hong Kong business made a negligible trading loss in its start-up year. Net assets of the businesses are £500,000.

Beverley's reverse takeover by FEC collapses

By Simon Davies

The proposed reverse takeover of Beverley Group by Hong Kong-based Far East Consortium has collapsed, after FEC terminated a provisional agreement to swap a Chinese boiler manufacturing subsidiary for a majority shareholding.

Beverley gave no explanation for the move, which follows more than three months of negotiations.

The deal would have provided Beverley with its sole source of earnings.

FEC is controlled by the family of Mr Deacon Chiu, who built up a conglomerate around a network of cinemas and property developments, but became entangled in a series of legal battles.

In 1993, he had 14 charges of false accounting dropped against him, after he was found unfit for trial due to senile dementia. Shareholders still voted for him to retain his post as chairman.

In September that year, the Hong Kong Stock Exchange expressed "major concerns" over a property sale to Far East Hotels, a FEC group company. The deal would have netted a HK$506m (£41m) profit for Mr Chiu's son Derek in less than a year, but the sale was withdrawn.

And last December, Hong Kong's Commercial Crime Bureau raided the FEC group offices, in connection with a government investigation into the 1990 buy-out of Alan Bond's Bond Corporation International Ltd. No charges have been brought.

Beverley's purchase of Pegasus, which owns 51 per cent of a Guangzhou (Canton) boiler manufacturer, was to have provided access to a high growth market, and a positive cash flow.

Beverley's 1993 accounts were qualified, as its auditors were "unable to provide confirmation that it will have sufficient facilities to cover future working capital".

Its shares will remain suspended, and the company is looking at alternative means of raising finance.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Austin Reed ....int	2		2	-	5.5
Bank of Scotland ......int	2.13	Dec 19	1.87	-	5.05
Finelist ....fin	1.5	Nov 11	-	-	-
Grampian Holds ....int	1.7	Nov 24	1.7	-	5.5
Hewden-Stuart ....int	0.825	Dec 12	0.75	-	2.9
Novo Group ....fin	0.1	Dec 1	1	0.2	1.3
Prestwick ....fin	nil	-	nil	nil	0.5
Walker Greenbank.....int	1.3	Dec 6	1.2	-	3.3

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

Servisair achieves target £54.3m value in float

By Simon Davies

Servisair, the independent aircraft and passenger handling company, has announced that despite current market indigestion for new issues its flotation was fully underwritten at its target price, valuing the company at £54.3m.

The company's parent, Securum, is selling 60 per cent of its stake.

Servisair is offering a further 7.4m new shares, making a total offer of 24.12m shares priced at 135p.

The company is forecast to make profits of £4.2m before exceptional items, putting the shares on a price-earnings ratio of 14.7, which is roughly the stock market average.

It is offering 6.03m of the shares to intermediaries. This portion of the offer should get a boost from the news yesterday that Servisair has won a 10-year baggage-handling contract at Glasgow airport, the UK's fourth largest.

Servisair already operates passenger and cargo handling services at Glasgow, which should contribute about £5m to this year's revenues. The baggage-handling contract should add at least 10 per cent to that figure. The company has also secured 10-year contracts for its other operations in Glasgow.

Servisair will pay a notional dividend of 3.5p for 1994, representing a notional gross dividend yield of 3.5 per cent.

The offer to intermediaries closes on October 12 and trading is scheduled to start on October 18.

● COMMENT

Servisair has done well to achieve a high price in an unfavourable market, but does not appear to have left much for the stags. It offers the advantages of a long management track record, a decade of profits growth, and a relatively dependable source of earnings. It also has a strong argument for new business. Airlines in the UK and Europe are starting to contract out lower margin, non-core activities such as passenger and aircraft handling. The old monopolies are being broken, as at Glasgow, providing a convincing medium-term picture. As most of the short-term attractions are well accounted for in the offer price, it must be classed as a stock for the patient.

Biocompatibles for market with £80m valuation

By David Blackwell

Biocompatibles International, a research company that has developed a new type of contact lens, is planning to float later this month as its products begin to go on sale.

The company, which is expected to have a market value of about £80m, is seeking up to £40m through the issue of new shares. Of the total, £25m will be placed firm, with the balance available to meet retail demand through intermediaries.

The pathfinder prospectus, published yesterday, shows that the company had accumulated losses of £9.77m at the end of June. It warns that investment in the company involves a higher than normal degree of risk.

Mr Alistair Taylor, chief executive, stresses that the company is not a biotechnology operation, but a maker of medical devices. It has £7m of cash, which would last for a couple of years if it continued at its present pace.

But it expects to spend £25m next year as it moves its contact lenses into the French, German, and US markets and increases the pace of development of other devices.

The existing shareholders, including Johnson & Johnson with 8 per cent, Biotechnology Investments, Cygnus Ventures and 3i, will retain their shares for at least a year.

Biocompatibles was established in 1984 to develop products using phosphorylcholine, or PC, a substance present in red blood cells and the primary natural material responsible for biocompatibility.

PC was identified by Professor Dennis Chapman, of the Royal Free Hospital School of Medicine in London, who holds 4 per cent of the equity.

The PC-based soft contact lens, to be known as Proclear, is aimed at people who want to use contact lenses, but have found them uncomfortable. The company says the lenses resist dehydration and cut the risk of bacterial infection.

Mr Taylor expects the company to be generating cash in 1998, mostly from the sale of contact lenses, which begins commercially this month.

The company has a licensing and co-operation agreement on eye care with NOF Corporation of Japan. Last month it acquired Lombart Lenses, a contact lens maker in the US, which accounts for half of the world market.

Sponsor to the issue is Robert Fleming and the broker is Smith New Court.

Churchill China hopes to raise £15m in flotation

By David Blackwell

Churchill China, the third Staffordshire-based china company to float this year, is expecting 1994 profits to exceed the record level of 1991.

The pathfinder prospectus yesterday forecast pre-tax profits, before bonuses to directors, of £3.6m for the year to December 31. This would be ahead of last year's £2.9m, struck on turnover of £36m, and 1991's £3.23m on sales of £31.5m.

The company, which celebrates its bicentenary next year, is owned by the Roper family. It is aiming to raise £15m via a placing.

About two-thirds of the money will go to the three Roper brothers on the board, their families and family trusts, while £5m will be used as part of an investment programme to improve capacity and quality. "In the next five years investment in the company will be double the investment we undertook in the previous five years," said Mr Stephen Roper, chief executive.

The Roper family, which has run the company since 1922, will own about 55 per cent of the company after the placing.

In addition to providing funds for investment, the group, which operates tableware, hotelware and fine china divisions, expects the expanded shareholder base to provide a market for existing shareholders and opportunities for employees to invest.

Mr Roper described 1991 as an exceptional year, with exports to continental Europe particularly strong. Recession in Germany and Spain knocked profits back in 1992, but the upturn in business seen in 1993 had continued this year.

Hoare Govett is both sponsor and broker.

Storehouse upbeat and plans BHS expansion

By Neil Buckley

Storehouse is stepping up the expansion of its BHS clothing chain, including extending its franchise network in Spain, Greece and the Middle East.

The news came as the retail group, which also includes the Mothercare and Blazer chains, said sales were running 7 per cent ahead of last year, and it expected interim profits from retail operations to be "comfortably ahead" of last year.

Storehouse was upbeat on prospects for trading and growth. Its shares rose 1p to 198p.

It said that while sales for the first quarter to July were 5 per cent ahead of last year, the increase for the first half was expected to be 7 per cent, thanks partly to a strong back to school period.

Gross margins were being maintained, in spite of increased mark-downs to clear excess stocks of children's clothing at Mothercare.

Cost increases were better than budget, although the group said refurbishment of Mothercare stores would lead to higher operating costs and depreciation charges.

BHS is accelerating its expansion programme and will increase selling space by 5 per cent this year, and 8 per cent next year. Capital spending will increase from £46m to £80m.

It is opening three stores during the autumn in Rochdale, Telford and Stirling, and extending other stores. Six openings are scheduled for next year. The group plans six openings in each of the following two years.

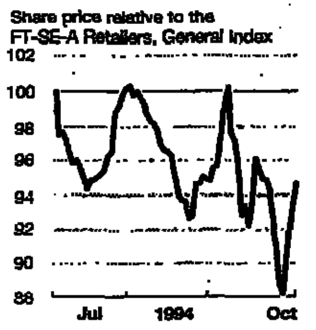
Some 13 BHS franchises will open this autumn in Spain Greece, Portugal and the Middle East, where they will add to existing operations in Saudi Arabia, Kuwait, Bahrain, Oman and Abu Dhabi.

Refurbishment of the Mothercare chain is continuing, with 42 stores, representing a quarter of trading space, now completed.

See Lex

Storehouse

Share price relative to the FT-SE-A Retailers, General Index



Source: FT Graphite

Prestwick on recovery path

By James Buxton

Prestwick Holdings, the Scottish printed circuit board maker, returned to profit at the operating level in the year to August 1 as measures to revive it after heavy losses following ill-judged acquisitions took effect. Its pre-tax loss was also sharply reduced.

Operating profit on continuing operations was £815,000 compared with a restated deficit of £875,000. Losses on discontinued operations fell to £141,000 from £950,000.

At the pre-tax level losses were cut to £1.25m (£3.97m) after exceptional reorganisation costs of £493,000 (£478,000). Turnover on continuing operations inched ahead to £32.9m, against £32.4m, and the interest charge was reduced to £562,000 (£652,000). Losses per share emerged at 7.11p (20.34p).

Mr Archie Coulson, a company rescue specialist who became executive chairman at the request of institutional shareholders in January, said the company had achieved the forecasts made in August when it launched a £4.5m rights issue.

Prestwick also sold Electroconnect, its electronic design subsidiary, to management for £1.65m.

The company has no distributable reserves and is thus unable to pay dividends. It intends to apply to the High Court to eliminate the deficit on its distributable reserves and resume dividend payments when it is prudent to do so.

Mr Coulson said the refinancing had given the company the flexibility to choose between raising profit margins or going for volume growth.

It had to increase productivity, improve its processes and invest to improve the quality of its capital equipment. Parts of its business were doing well but others were not performing satisfactorily.

Airtours acquires Late Escapes

By Michael Skapinker, Leisure Industries Correspondent

Airtours, the travel group, has acquired Late Escapes, a travel agency, for up to £6.4m.

Late Escapes sells tour operators' holidays close to the date of departure. It advertises on Teletext and sells by telephone. It has administrative offices in Newcastle, Darlington and Sunderland and in 1993 made pre-tax profits of £896,472. It will operate as a division of Going Places, Airtours' travel retail chain.

Consideration will be in cash and unsecured loan notes. The initial payment will be £2.4m with a further sum of up to £4m profit related.

Mr David Crossland, Airtours chairman, said: "This acquisition provides us with a position in a rapidly developing sector of the holiday distribution market which is complementary to that occupied by Going Places."

£543,000 Dutch buy for Walker Greenbank

By Richard Wolffe

Walker Greenbank, the wallcoverings and fabrics group, entered a new phase of international expansion with the acquisition of a Dutch distributor, announced yesterday alongside its interim results.

The £543,000 purchase of Topwand forms part of Walker Greenbank's strategy to boost overseas sales from 28 to 70 per cent of overall turnover within the next five years.

In the six months to July 31 pre-tax profits were up 23 per cent from £3.35m to £4.14m. Group turnover rose 22 per cent from £29.9m to £36.3m, partly thanks to a £2.05m contribution from two companies, Hartley and Afia, acquired last year.

Mr Charles Wightman, chief executive, promised another acquisition to strengthen the group's European distribution network by the end of this year.

Walker Greenbank expects to double Topwand's pre-tax profits of £98,000 last year by expanding its salesforce to distribute more consumer products in the Netherlands.

Interest costs fell from £181,000 to £39,000 and gearing was cut from 10 per cent to 7 per cent.

This year the group expects to offset a 5 per cent increase in raw material prices by higher plant utilisation and increased productivity. Sales price increases next year are anticipated at 3 per cent.

Turnover in the non-core area of healthcare rose to £1.23m (£908,000). The group is planning to double the size of its healthcare business , which produces bath lifts for the disabled, before disposal.

The healthcare company, Hampshire Medical, survived the group's reorganisation after attempts to build Walker Greenbank into an industrial conglomerate in the 1980s.

In 1991, Mr Wightman helped fight off a boardroom takeover by Aubin, a Jersey-based investment company.

Earnings per share improved to 2.95p (2.44p) and the interim dividend is increased to 1.3p (1.2p).

Cost benefits from restructuring have not yet made an impact

Grampian forced to lower sights

By Simon Davies

Grampian Holdings, the Scottish mini-conglomerate, disappointed analysts yesterday by failing to deliver any meaningful fruits from last year's intensive restructuring.

Pre-tax profits rose 75 per cent to £3.59m (£2.05m) for the half-year to July 1; however, the 1993 figures were depressed by a £1.22m exceptional loss from reorganisation costs. The shares fell 12p to 117p, as analysts' forecasts were cut by around £2m.

Mr Bill Hughes, chairman and chief executive, admitted that Grampian over-estimated the speed with which cost benefits would come through from the consolidation of its pharmaceuticals business into one core manufacturing centre.

Mr Hughes said: "Overall, we expect cost savings of £500,000 for the full year." Grampian estimates the division could achieve £1.25m of savings per year by 1995.

The UK pharmaceuticals division experienced a 7 per cent fall in sales, with margins falling because of fierce competition in the supply of intensive farming products. However, overseas markets, particularly Germany and New Zealand, strengthened. The division's profits fell from £3.29m to £3.04m. Sporting goods reduced losses from £273,000 to £183,000 but the company has yet to benefit from royalty income from a new licensing agreement at Patrick International.

Transport performed well, benefiting from moves into higher-margin logistics operations. Profits grew from £1.32m to £1.55m. Retail operations now comprise a 25 per cent stake in Edinburgh Woollen Mill, which contributed a £181,000 loss against a £475,000 divisional loss in 1993.

Group turnover from continuing operations fell from £58.6m to £56.3m. Net debt fell by around £3m to £38m. Mr Hughes expects year-end gearing of 60 per cent (74 per cent), reflected in lower interest costs of £1.28m (£1.89m).

The dividend is maintained at 1.7p against an increase in earnings per share from 2.14p to 3.68p.

● COMMENT

For a long time Grampian's full earnings recovery has been somewhere over the rainbow, and the market appears to be running out of patience. Management is now maintaining a cautious note and analysts are forecasting profits of £9m to £9.5m against prior forecasts of £11m. This leaves the shares on a p/e of 12.4, with all the hopes of recovery to come. Grampian operates something of a ragbag of small businesses with little strategic logic, but the current price offers value.

BP sees continuing pressure on margins

By Robert Corzine in Spain

British Petroleum yesterday warned that refining margins were likely to remain under pressure for the rest of the year, in spite of a return to economic growth in much of Europe.

Mr Rolf Stomberg, chief executive of BP Oil Europe, said that European refining margins were "the lowest in five years." The margin in the first half of 1994 fell to $2.03 a barrel, against $2.48 in 1993.

Mr Stomberg told journalists visiting the company's Spanish refinery that the gap between European supply and demand for refined products, such as petrol, would "narrow a bit next year."

But he was not optimistic about a big improvement, because growth in refinery capacity in Europe continued to outstrip demand. In addition low international freight rates had allowed refiners throughout the world to ship products to Europe.

BP had been able to offset deteriorating margins by improved earnings from marketing activities, Mr Stomberg said.

Cost cutting and improvements to BP's five European refineries resulted in fixed cost savings of $100m (£63.2m) in the first half, with further improvements likely.

NEWS DIGEST

Carr's Milling sells bakery

Carr's Milling Industries has sold the business plus some assets of Robertsons (Bakers) to Robertsons, a joint venture it has set up with Kears Group, for £2.3m cash.

The move is aimed at reducing Carr's losses while protecting Robertsons' position as one of the biggest customers of Carr's Flour Mills.

Robertsons reported a pre-tax loss of £406,330 on turnover of £15.6m for the year ended August 28 1993.

Kears, a 50 per cent associate of Greencore Group, produces, markets and distributes bakery produce. In the year to September 25 1993 it had pre-tax profits of £2.03m on turnover of £39.3m.

Sims completes buy

Sims Food Group has bought the outstanding 40 per cent of shares in General Provisions, the supplier of sliced and packed bacon, for £2.53m. The acquisition has been financed by the issue of 3.54m new Sims shares at 5p each.

Sims acquired 60 per cent of the share capital of General Provisions in January 1992 for £1.37m in cash. General Provisions' pre-tax profits for the year ended March 1994 were £584,000 on turnover of £13.5m.

BZW Endowment

BZW Endowment Fund, the trust which invests in second-hand with-profits endowment policies, had a net asset value per share of 98.3p at July 31.

The company, which came to the market in October 1993, said policies had been bought on better terms than had been envisaged at the trust's launch.

The fund held 856 policies with a value of some £10.9m and was about 60 per cent through its purchase programme, the directors said.

For the period from September 17 1993 to July 31 1994 there was a net deficit of £1.2m, or losses per share of 5.99p.

At September 30 net asset value was 100.8p.

Navan Resources

Navan Resources, the Dublin-based natural resources producer, announced that "strong progress" had been made in the 1994 first half, with pre-tax profits advancing by 85 per cent from I£297,000 to I£549,000 (£543,000) for the period.

Turnover grew from I£3.1m to I£3.78m and earnings came out at 0.57p (0.07p) per share.

Parkside factory

Parkside International, the flexible packaging and plastic labels maker which came to the market in February, is buying a 2.6 acre greenfield site near Leeds for a 35,000 sq ft factory due to be completed in 1995.

The cost, including the land, design and building, will be about £1.7m.

CU rights result

Commercial Union's recent £322m rights issue has been taken up in respect of 63.3m new ordinary shares, equivalent to 90.84 per cent.

The remaining shares have been sold at a premium.

Hungarian Inv Tst

Hungarian Investment Trust ended the six months to August 31 with net asset value at $95.57, against $94.97 at the same stage of 1993 and $108.88 at February 28 1994.

Net revenue in the first half fell from $968,000 to $891,000 (£561,614). Earnings per share came to 89 cents (97 cents).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 05.10.94: Pool purchase price £/MWh	Firm Prices for Trading on 03.09.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.20	9.95	9.95
0100	10.01	9.59	9.59
0130	10.20	9.59	9.59
0200	13.48	9.59	9.59
0230	13.48	9.59	9.59
0300	13.48	9.59	9.59
0330	13.48	9.59	9.59
0400	13.48	9.59	9.59
0430	10.20	9.59	9.59
0500	10.20	9.59	9.59
0530	10.08	9.59	9.59
0600	10.20	9.92	9.92
0630	16.30	9.95	9.95
0700	25.25	13.12	16.34
0730	16.71	17.34	20.56
0800	31.73	16.27	19.49
0830	32.13	17.06	20.28
0900	32.14	17.38	20.61
0930	26.04	17.39	20.63
1000	26.01	17.41	20.65
1030	26.01	17.42	20.66
1100	25.97	17.43	20.68
1130	26.04	20.71	23.96
1200	26.08	17.49	20.75
1230	25.98	31.14	34.40
1300	25.78	31.10	34.35
1330	25.46	20.64	23.88
1400	20.03	20.62	23.85
1430	20.01	16.95	20.18
1500	19.99	17.06	20.29
1530	19.98	17.06	20.28
1600	20.05	17.37	20.60
1630	20.18	16.98	20.22
1700	20.30	25.57	28.81
1730	20.24	26.55	28.79
1800	20.13	17.06	20.29
1830	20.77	17.35	20.57
1900	54.58	16.47	19.69
1930	54.91	16.47	19.69
2000	54.30	16.47	19.69
2030	36.90	26.00	29.23
2100	19.72	26.00	29.23
2130	16.49	16.66	19.88
2200	16.46	16.27	19.49
2230	16.42	16.31	19.53
2300	16.23	16.27	19.49
2330	15.94	15.80	19.02
2400	10.20	13.47	16.69

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456788 between 8.30am and 5.15pm Monday to Friday.

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COMPANY NEWS: UK

FG Wilson set for takeover by US group

By Andrew Baxter

FG Wilson (Engineering), Europe's largest manufacturer of diesel generator sets, confirmed yesterday it had reached a preliminary agreement to be acquired by St Louis-based Emerson Electric.

The privately owned Larne-based company, one of Northern Ireland's biggest private sector employers, would not disclose a price for the takeover. But it is believed that Emerson will pay between £150m and £200m.

The takeover, if it goes ahead, would be one of the biggest investments by a foreign company in Northern Ireland. It comes in the wake of the IRA's ceasefire announcement at the end of August, which has raised the confidence of overseas investors in the province.

Mr Tom Wilson, managing director of FG Wilson, said talks were at a preliminary stage, but directors believed a partnership with Emerson would lead to considerable benefits for the company and its employees.

FG Wilson already deals with several Emerson divisions in switchgear, electronic controls and generators. Mr Wilson said an alliance would enable the Ulster company to broaden its penetration of international markets through Emerson's worldwide distribution networks.

Directors also believed the partnership would lead to expansion of FG Wilson's production facilities and to further job opportunities at its Larne site. The company employs about 1,000 people.

FG Wilson had sales of £165m in the year to August. Profit figures were not available, but in 1992-93 it made about £18m.

The company was formed in 1966, and exports some 80 to 90 per cent of its sales, mainly to continental Europe, Australasia and the Middle East. A link-up with Emerson could help sales in North and South America.

Emerson makes a broad range of electrical and electronic products and had sales of $8.2bn (£5.2bn) last year.

British Thornton shares take 32% tumble

By Heather Davidson

Shares in British Thornton Holdings, the packaging and specialist furniture group, tumbled 24p to 51p, a 32 per cent drop, following a warning that pre-tax profits for the six months to October 31 were likely to be "significantly below market expectations".

Analysts said the company was not on track to achieve the estimated £2.6m year-end figure. For the first half of 1993-94 pre-tax profits were £1.15m, with £2.11m for the year to April 30.

Volumes in the video games industry, particularly in the UK, had not recovered as expected, said Mr Brian North, chairman. The group's subsidiaries, Masterform and Masterpack, which make packaging and display materials, relied heavily on the industry.

Mr North said video games sales were weighted towards the pre-Christmas shopping season and so it was difficult to predict the extent of any recovery in the second half.

However, the company "remained confident" of the market's long-term potential. It was seeking to develop closer links with Sega with a view to producing packaging and displays for a broader range of its products.

The group is committed to expanding its non-Sega business and has won some new accounts, including Polygram.

Trafficmaster in high street link

By Simon Davies

Trafficmaster yesterday announced that it had reached an agreement with high street retailers which would result in its traffic monitoring system being sold through more than 500 outlets by early next year

When it gained a listing in March, the company had sold about 2,100 units through direct marketing, but it expects substantial growth through access to retail networks, mainly electronics and cellular phone stores.

Trafficmaster also reported that interim pre-tax losses had risen from £468,000 to £541,000 on turnover up 61 per cent to £571,000. This reflected increased investment in infrastructure.

Trafficmaster will have completed coverage of the 912 miles of motorways detailed in its listing particulars, by December 7, when it will launch its national network.

It will also have installed sensors covering 406 miles of trunk roads by the end of the year.

Mr David Martell, chief executive, said the company was focusing on building up infrastructure, rather than short-term profits.

It had spent £1.5m on developing its network since the flotation, which raised £7.17m, and yesterday it opened its National Traffic Data Centre.

It is also negotiating with car manufacturers over usage of Trafficmaster in an on-board system for new cars. Mr Martell reckons that such a system will be introduced by at least two manufacturers by the end of 1996.

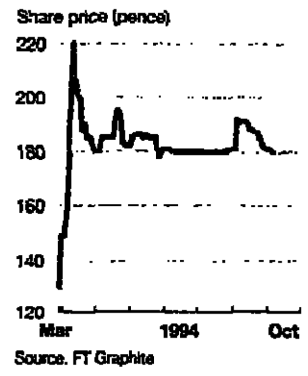
At the end of June, cash and short-term deposits were £7m, which Mr Mantell said would be sufficient to fund its investment programme.

The share price closed down 1p at 180p. But it has been one of the best performing flotations of the year, rising from an issue price of 130p.

The company is not paying a dividend, as flagged at the time of flotation.

Losses per share fell from 3.6p to 2.9p.

Trafficmaster



Source. FT Graphite

Murray raises offer for Andrews Sykes

Mr Jacques Murray has increased his offer for Andrews Sykes, the industrial services group of which he is chairman, valuing the company at £10.7m, against £8.24m previously.

European Fire Protection Holdings, the private Netherlands-based company owned by Mr Murray, has increased its offer for the ordinary shares from 50p to 65p and from 12p to 15.6p for the preference shares.

The move follows European Fire's latest purchase in the market of a 5.5 per cent stake at 65p a share, taking its total holding, including those acting in concert, to 47.65 per cent.

In addition, acceptances have been received in respect of 39,942 shares, or 0.28 per cent.

European Fire also holds 8.33 per cent of the preference shares.

The shares were unchanged yesterday at 67p.

The bid is the culmination of Mr Murray's taking control of Andrews Sykes, which began in May when he and four of his supporters won control of the board at an extraordinary general meeting. In July he replaced Mr David Hubbard as chairman.

Andrews Sykes is in the middle of a reorganisation to refocus on its core activities of pumping, heating, air conditioning and hire businesses.

Computer People to buy VNG for £7m

Computer People Group is proposing to acquire VNG Group, the computing services and consultancy company. The offer, which values VNG at £7m, is being made on the basis of 1.025 shares for each VNG share, or a cash alternative of 186.5p per share.

To fund the acquisition, Computer People has announced a placing and open offer of 3.07m new ordinary shares at 182p each, to raise £5m net of expenses. Up to £1.8m will be used to fund the cash consideration and £3.2m to refinance VNG's debt arrangements.

The move follows the acquisition of Span last July for £5.5m when £5.8m was raised through a placing and open offer.

Irrevocable undertakings to accept in respect of 91.9 per cent of VNG's shares have been received.

The placing has been underwritten by NatWest Securities. The open offer is on a 1-for-6 basis.

VNG, founded in 1979, reported operating losses in 1993 but returned to profit in the first half of 1994. The group comprises contracting arms in the UK and Europe, a UK-based training division, which had an interim turnover of £395,000, and a UK consulting business, which had an interim turnover of £593,000.

Finelist advances to £2.45m

By Peter Pearse

Finelist, the car parts distributor, beat its flotation forecast with a leap in pre-tax profits from £1.01m to £2.45m in the year to June 30.

The shares firmed 1p to 146p yesterday, against a 130p flotation price in February.

Mr Chris Swan, chairman and chief executive, said the pre-tax figure was £150,000 ahead of forecast.

Turnover was up 50 per cent to £24.1m (£16.1m) and operating margins rose from 7.5 to 10.6 per cent. Mr Swan ascribed this advance to volume growth, price increases, reductions in branch costs and overheads, and some benefit from acquisitions. The group added nine more sites, with four opening since the float.

Since the period-end, Finelist, which trades principally under the Autela name, has bought Edmunds Walker and its Walter Moss/Berite subsidiary for up to £20m, funded in part by a 1-for-2 rights issue at 120p to raise £12m.

EW, which has been loss-making, brings with it 89 sites and sales of £64m. WMB, which is to be integrated into the Autela chain, brings 10 sites and sales of £4m.

Mr Swan said that, like Finelist which left the own-label parts market two years ago, EW sold only branded parts. It is strong in commercial vehicle and engine parts. The combined group now has 177 outlets, of which 23 are franchises. Mr Swan said he wanted the group to have about 250 outlets within the next three years.

In the present year trading in the original group was in line with budget, the company said, while the first six weeks from EW was well ahead.

Interest payable fell to £98,000 (£191,000). At the end of August, the group had net assets of £15.5m, a £10m term loan (to help pay for EW), and cash of £5.5m. This gives gearing of about 32 per cent.

Earnings jumped to 8.2p (3p) per share and the proposed single final dividend is 1.5p, as forecast.

Unipart expands to £13.3m

By John Griffiths

Rapidly expanding motor component manufacturing activities helped Unipart, the motor parts and accessories group once owned by Rover Group, achieve an increase in first half pre-tax profits from £11.3m to £13.3m.

Mr John Neill the chief executive, reported the figures to July 2 from turnover 14 per cent higher at £401m (£353m).

The figures were accompanied by the disclosure that a recently-formed joint venture with Air International Group of Australia to produce vehicle air-conditioning systems has started its first development work, for General Motors' Opel car making subsidiary.

Unipart DCM, the group's parts distribution division, has also just won the contract to take over all parts distribution in France for luxury car maker Jaguar.

Mr Neill added that he did not expect this year's second half "to be any worse" than the first.

There were "mixed signals" about demand, so Unipart would continue to focus on reducing costs.

NEWS DIGEST

Decline to £1.3m at Novo

The poor performance of its film entertainment services division and a loss on the disposal of its French associate were behind a reduction in pre-tax profits from £1.81m to £1.29m at Novo Group in the year ended March 31.

Sales rose 19 per cent to £17.1m (£14.3m).

The group is involved in litigation concerning Walport International, which was acquired from BET, concerning certain alleged licensing and copyright irregularities.

Lower operating profits of £1.85m (£2.31m) reflected a £241,000 charge related to the litigation. In addition, a loss of £182,000 was incurred on the French disposal.

A reduced final dividend of 0.1p (1p) is recommended, making 0.2p (1.3p) for the year. Earnings per share fell to 1.74p (3.82p).

The group is also raising £1.8m net as working capital via a 1-for-6 fully underwritten rights issue of 7.75m ordinary shares at 26p each.

Azlan acquisition

Azlan Group, the distributor of advanced computer networking products, has acquired the distribution division of Asonic Computer Equipment for up to DM4.7m (£1.9m), of which DM1.6m has been paid on completion with the balance to be paid over the next two years.

Johnston Press

Johnston Press is planning a 3-for-1 scrip issue and also intends to reduce its share premium account by £5.88m, which will be transferred to a special reserve. The number of ordinary shares in issue will increase by 100.03m to 133.38m after the scrip.

Greenacre expands

Greenacre, the nursing homes operator, has acquired The Argyles Nursing Home, Berkshire, for £1.95m cash.

The acquisition brings the total number of homes under operation and development by Greenacre to 13 and the number of beds to 680.

The Argyles showed adjusted profits before depreciation, finance charges and tax of £352,000 in the year to January 31 1994.

Arcadian at £0.12m

Arcadian International, the hotel operator and leisure developer, announced pre-tax profits of £116,000 for the six months to June 30. For the previous eight months there were losses of £471,000.

The results are the first since November's substantial capital increase and acquisition of the Clipper and Hidden hotels.

Turnover amounted to £5.58m (£1.28m) with just £197,000 from continuing operations. Earnings came out at 0.1p (1.2p losses). The directors intend to recommend a dividend for the full year.

COMMODITIES AND AGRICULTURE

European Court rejects German banana complaint

By Deborah Hargreaves

The European Court of Justice yesterday rejected a complaint about the European Union's banana import regime after Germany claimed the rules discriminated against its traditional Latin American suppliers.

Germany, which is the largest EU importer of bananas, complained to the court about the privileged access to the market enjoyed by former French and British colonies in so-called ACP – Africa, Caribbean and Pacific – countries. It claimed this discriminated against cheaper imports from Latin American suppliers.

The court said Germany's reasoning was not sufficient "to justify nullifying the market regime". It followed advice from the advocate-general given in June last year.

New rules imposed by the European Commission last year restrict Latin American banana shipments to a tariff-free quota of 2.1m tonnes a year. A deal with Latin American countries was brokered by the commission after they complained to the General Agreement on Tariffs and Trade about ACP countries enjoying favourable access to the EU market.

Germany has already filed an additional court case about that deal with Latin American countries, claiming the commission had no authority to negotiate it. The court is expected to hear the case in about a year.

Meanwhile, the commission's management committee, which supervises the banana regime, put off a decision yesterday about aid for the Windward Islands, where banana crops have been devastated by tropical storms.

Geest, the food company, has called on the commission to allow it to import bananas from other sources under the ACP quota allocated to the Windward Islands to ensure that the island group does not lose market share permanently. The commission said it was still gathering information and could reach a decision in the next couple of weeks.

S Africa opens doors to foreign explorers

By David Lascelles, Resources Editor

South Africa yesterday threw open its offshore acreage for international oil and gas exploration.

In a move aimed at bringing the country back into the mainstream of the world energy markets, Pretoria solicited bids for licences to explore virtually all the country's coastal areas, divided into 18 blocks.

Mr Pik Botha, the former foreign minister, who is now minister of mines and energy, told a launch seminar attended by oil and gas companies in London that his government "sees this licensing round as a major step forward in exploring our offshore potential.

"We cannot guarantee that you will discover gas or oil or both," he said. "But we are setting in motion an intensive – and extensive – process of exploration never undertaken before".

Bids for licences have to be submitted by April next year, and Mr Botha said he hoped to have the allocation process complete by November 1995. Exploration programmes will have to be for a minimum of three years and a maximum of seven.

International oil companies were active in South Africa until the early 1970s when most of them withdrew for political reasons. Since then, there has only been a small amount of exploration, mainly by Soekor, the state oil company.

South Africa produces a third of its liquid hydrocarbons artificially from coal, and imports certain amounts of oil, mainly from Iran.

Mr Botha said yesterday that the tariff protection given to the local oil and gas industry would continue because of its important contribution in saving foreign exchange. But he said South Africa was keen to widen its trade relations with energy-producing nations, and deals were pending with various OPEC countries which he declined to name.

So far, 19 companies – 17 of them from abroad – had asked for information packs about the blocks on offer.

Mr Botha said he was "very encouraged" by the attendance at yesterday's seminar, which included many of the world's major oil companies.

Asked whether South Africa was more secure than other new energy markets that are opening up, such as Central Asia, Mr Botha said: "As secure, if not better" because of the well-developed state of South Africa's mining technology and infrastructure.

"I can assure you," he added, "that the rules are not only reasonable but will also be stable."

Zambia to advance sale of copper miner

Zambia's mines minister Paul Kapinga said yesterday that the government would bring forward the proposed privatisation of Zambia Consolidated Copper Mines, reports Reuters from Lusaka. He said this would end speculation on whether the major mining company would be sold or not.

"We are bringing forward the sale of ZCCM from the last tranche to other earlier tranches so that it could be sold much earlier than previously arranged," the minister told reporters. But he did not say how soon.

According to the Zambia Privatisation Agency, no timetable had yet been set under the tranche sales programme for the privatisation of ZCCM, which is 60.3 per cent government owned, and several other strategic enterprises.

Mr Kapinga said the government favoured privatising ZCCM as a single entity rather than unbundling it into five separate ones as recommended by foreign consultants.

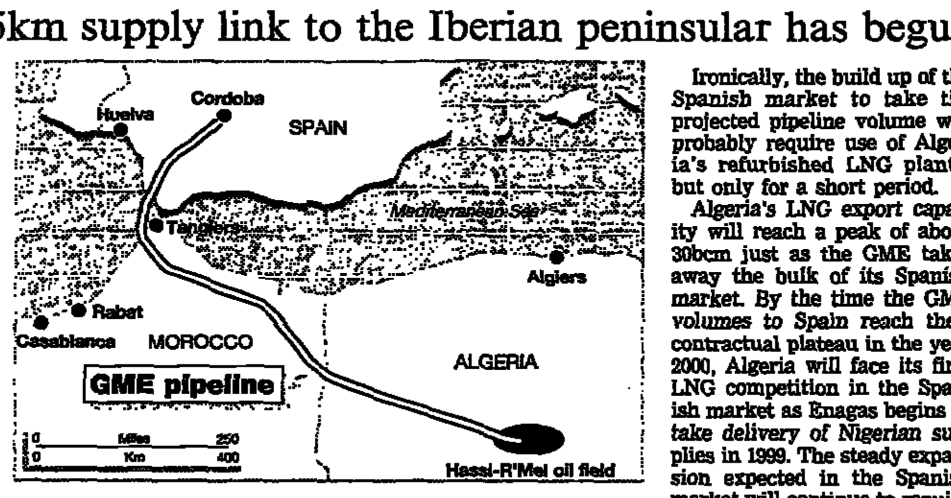
Deputy mines minister Mr Mathias Mphande said last month he favoured unbundling because potential shareholders could find it difficult to raise the estimated US$3bn needed for rehabilitation and new projects in the next three years.

Pipeline project to push Algeria up European gas league

Work on a 1,845km supply link to the Iberian peninsular has begun on time, writes Francis Ghiles

The building of the Maghreb Europe Pipeline (GME) has started on time.

In spite of the violence that affects much of Algeria and the uncertainty surrounding the country's political future, work has started on the three main sections of the GME, which by mid-1996 will deliver Algerian gas to Morocco, Spain and Portugal.



The 1,845km pipeline is being built in three main sections. The 530km Algeria section is being laid by Bechtel, a US company. The delivery of several hundred kilometres of pipes and pipe-laying activity is due to start later this autumn.

The 540km Moroccan section, which is being laid by EMPL, a subsidiary of the leading Spanish gas utility, Enegas, has had over half its materials delivered and construction is to commence before Christmas.

Italy's Saipem has begun work on the submarine section and is due to complete the work by the middle of next year. Saipem was responsible for laying, between 1980 and 1983, the TransMed pipeline, which runs between Tunisia and Italy, the deepest submarine pipeline in the world.

The overall cost of the project is estimated at $2.8bn and it is backed by major western export credit organisations such as the US Eximbank, Germany's Hermes, France's Coface and the European Investment Bank.

When completed in mid-1996, the GME will add some 7.2bn cubic metres to the annual pipeline export capacity of Sonatrach, Algeria's state oil and gas company, taking it to 31.2bcm.

This will be quickly expanded. Annual sales of 8.5bcm will be made to Spain and Portugal. Morocco is also a customer and will take its gas as a transit fee, as Tunisia has been doing for the past 11 years with gas passing through the TransMed pipeline.

Algeria has already contracted to sell a total of 32.5bcm of gas annually, by the year 2000, to customers through the TransMed and GME lines. Sonatrach's current liquefied natural gas commitments are for 25.1bcm. For the first time in Algeria's history, sales of piped exports are set to overtake exports of LNG.

Ironically, the build up of the Spanish market to take the projected pipeline volume will probably require use of Algeria's refurbished LNG plants, but only for a short period.

Algeria's LNG export capacity will reach a peak of about 30bcm just as the GME takes away the bulk of its Spanish market. By the time the GME volumes to Spain reach their contractual plateau in the year 2000, Algeria will face its first LNG competition in the Spanish market as Enagas begins to take delivery of Nigerian supplies in 1999. The steady expansion expected in the Spanish market will continue to require the same level of Algerian LNG exports but Algeria will have to look elsewhere for extra sales.

Sonatrach has, to date, restricted itself to 60bcm of exports. This means that any increase above this level, using the capacity that will clearly be there, must come from gas discoveries of Sonatrach's new international oil company partners.

British Petroleum is close to an agreement to develop large reserves in the hitherto unexploited south-west of the country. If finalised, the $2.5bn project to develop fields around In Salah will involve BP constructing over 500km of pipeline and marketing the gas in Europe in partnership with Sonatrach. Other companies, notably Agip of Italy are confident that they will quickly follow once the pattern is set by the first deal.

But the "GME's biggest achievement", according to Mr James Ball, director of the Gas Matters consultancy, is ". . . not so much the co-operation it has brought about between countries on the northern and southern shores of the Mediterranean, but the co-operation it has brought between Spain and Portugal".

Indeed as recently as 1989, Portugal considered gas transit across Spain politically unacceptable. But by 2000 Portugal will be importing 2.5bcm of piped gas through the GME, a little over one quarter of the total throughput.

Spanish demand, meanwhile, is projected to rise to 12bcm a year by the turn of the century, a 71 per cent increase from the present consumption level, the largest demand coming from power generation and industrial co-generation.

Despite this massive increase in Spanish offtake of Algerian gas, Italy will remain by far Sonatrach's most important customer.

Italy's power generator, Enel is scheduled to begin taking delivery of its 4bcm annual contract in 1996, augmenting the 19.5bcm the gas utility SNAM already takes through the TransMed pipeline. In addition, SNAM recently concluded a long-term purchase agreement for 1.8bcm of Algerian LNG, its first ever such contract from Algeria, which will be delivered to the recently refurbished Panagaglia terminal at La Spezia.

In August, Sonatrach delivered the first cargo of Algerian gas to the world's newest LNG customer nation, Turkey.

Algeria has become the dominant supplier of gas to those countries in southern Europe where its use is growing fastest. Today, Algeria's share of the European gas market ranks third, with 19 per cent of the total, after the CIS, with 36 per cent and the Netherlands with 26 per cent. As Dutch production declines from the turn of the century, Algeria could well become Europe's second largest outside supplier of gas.

MARKET REPORT

Metals rally peters out

A burst of speculative buying and short-covering that lifted all London Metal Exchange contracts at midday yesterday vanished in the afternoon and prices drifted back.

COPPER'S renewed strength, which saw the three months price top $2,530 a tonne at one stage, helped ALUMINIUM reach its medium term target of $1,650 a tonne before being hit by the inevitable bout of profit-taking. This saw last business at $1,640, unchanged from Tuesday.

Investment funds were reported to be active again in the ZINC market, still considered a laggard compared with the impressive rises seen in some other metals this year. At the close of the afternoon ring three months zinc stood at $1,063.50 a tonne, up $6 on the day and $34 on the week so far.

London COCOA futures plunged late in the day following the New York market, which fell to a new 5-month low at midday.

The GOLD market returned to its bullish track after fund buying emerged in New York. The London price found support at $392 a troy ounce and closed at $392.70, up 30 cents. "There is feeling that the recent sell-off. . . was really just consolidation and profit-taking." one trader said.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1625.5-6.5	1645-6
Previous	1616-7	1640-1
High/low	1629	1650/1639
AM Official	1629-30	1648-8.5
Kerb close		1640-1
Open int.	260,763	
Total daily turnover	61,615	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1650-5	1670-4
Previous	1642-7	1662-5
High/low	1663	1670/1665
AM Official	1660-3	1675-80
Kerb close		1670-3
Open int.	3,052	
Total daily turnover	297	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	628.5-9.5	643-4
Previous	628-9	642-2.5
High/low		648/641
AM Official	632-2.5	645-5.5
Kerb close		641-2
Open int.	41,146	
Total daily turnover	13,868	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6455-65	6560-5
Previous	6300-10	6405-10
High/low		6580/6420
AM Official	6395-400	6485-90
Kerb close		6545-55
Open int.	68,421	
Total daily turnover	10,456	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5380-90	5465-70
Previous	5345-55	5430-5
High/low	5365/5360	5470/5430
AM Official	5355-60	5440-50
Kerb close		5445-50
Open int.	15,838	
Total daily turnover	5,787	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1040-1	1063-4
Previous	1033.5-4.5	1057-8
High/low	1039	1068/1056
AM Official	1038-9	1062-2.5
Kerb close		1060-1
Open int.	98,834	
Total daily turnover	24,988	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2528-30	2529-30
Previous	2507-8	2514-5
High/low	2518/2514	2531/2503
AM Official	2517-8	2515-6
Kerb close		2522-3
Open int.	224,391	
Total daily turnover	106,806	

■ LME AM Official £/$ rate: 1.5865

LME Closing £/$ rate: 1.5870

Spot:1.5862 3 mths:1.5815 6 mths:1.5750 9 mths:1.5692

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Oct	118.10	+0.80	118.80	118.10	2,210	451
Nov	116.50	+0.60	117.00	116.90	917	44
Dec	115.90	+0.55	116.60	115.50	38,775	8,909
Jan	115.30	+0.55	115.80	115.60	696	68
Feb	114.80	+0.55	-	-	440	4
Mar	114.30	+0.55	114.80	113.80	6,207	913
Total					58,077	10,513

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	392.50-392.90	
Opening	391.80-392.20	
Morning fix	392.15	247.257
Afternoon fix	393.70	248.00
Day's High	394.40-394.80	
Day's Low	391.50-391.90	
Previous close	392.20-392.60	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.58 6 months 4.93

2 months ....4.64 12 months 5.28

3 months 4.76

Silver Fix	p/troy oz.	US cts equiv.
Spot	352.85	559.65
3 months	357.95	567.20
6 months	363.70	574.95
1 year	377.95	593.40

Gold Coins	$ price	£ equiv.
Krugerrand	394-397	249-252
Maple Leaf	403.45-406.00	-
New Sovereign	92-95	58-61

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open Int	Vol.
Oct	392.2	-0.4	393.6	392.0	254	135
Nov	393.6	-0.4	-	-	-	-
Dec	395.2	-0.5	397.8	394.5	11,528	31,272
Feb	398.6	-0.5	400.5	398.0	19,854	134
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]				[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

■ CRUDE OIL IPE ($/barrel)

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

■ GAS OIL IPE ($/tonne)

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.)

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	105.10	+0.05	105.25	105.00	2,199	114
Jan	107.60	+0.20	107.65	107.40	1,940	8
Mar	109.55	+0.25	109.55	109.50	1,437	27
May	111.65	-0.10	111.90	111.55	1,396	40
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

■ BARLEY LCE (£ per tonne)

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

■ SOYABEAN MEAL CBT (100 tons; $/ton)

■ POTATOES LCE (£/tonne)

■ FREIGHT (BIFFEX) LCE ($10/index point)

Cotton

Spot and shipment sales in Liverpool amounted to 354 tonnes for the week ended September 30, against 237 tonnes in the previous week. Renewed purchasing in many specialist styles attracted much attention. East African, American, Israeli and Syrian growths moved off freely.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	943	-27	967	938	26,415	3,070
Mar	979	-23	999	970	37,367	5,270
May	989	-27	1011	985	13,043	550
Jul	1001	-28	1025	1000	5,914	345
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

■ COCOA (ICCO) (SDR's/tonne)

■ COFFEE LCE ($/tonne)

■ COFFEE "C" CSCE (37,500lbs; cents/lbs)

■ COFFEE (ICO) (US cents/pound)

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

■ WHITE SUGAR LCE ($/tonne)

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

■ COTTON NYCE (50,000lbs; cents/lbs)

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

■ CRB Futures (Base: 1967=100)

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	67.700	-0.250	68.600	67.550	15,903	7,413
Dec	68.525	-0.175	69.050	68.300	23,202	6,172
Feb	67.525	-0.375	68.100	67.425	14,847	1,858
Apr	68.150	-0.525	68.950	68.050	9,869	1,063
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

■ PORK BELLIES CME (40,000lbs; cents/lbs)

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

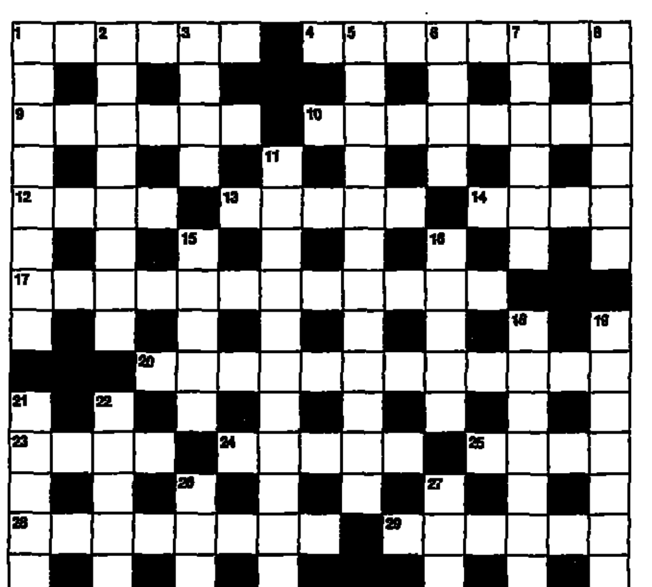
■ CRUDE OIL FOB (per barrel/Nov)

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

■ OTHER

CROSSWORD

No.8,577 Set by GRIFFIN



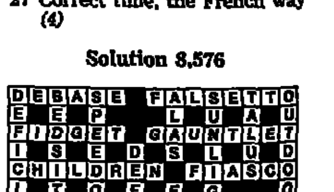
ACROSS

1 Last night wanted hot cereal three times! (6)
4 Meticulous accountant turned clergyman (8)
9 Approve of maid moving about (6)
10 Hearing foreign car turned it back on (8)
12 Joint many drink in front of (4)
13 Snooker ball we strike centrally (5)
14 Go by fool parking in front (4)
17 Absurd poseur prepared to take notice (12)
20 Boards trains once attacked by Indians (12)
23 Iris is lost on arriving at club (4)
24 Bound to beat Elizabeth (5)
25 Giggles if told some riddle (4)
28 Heard you entered Bath on a new motorway (8)
29 Where a vice takes first place (6)
30 Dropped cold cure following public introduction (8)
31 Game getting tangled in nets (6)

DOWN

1 Wing patterns when flying (8)
2 Getting on grade higher went berserk (8)
3 Short ball missed where 31 is played (4)
5 Frustrated cashier behaved (12)
6 At last you can return to group (4)
7 Man I'm allowing inside is a brute (6)
8 He got an eagle, by the way (6)
11 One making a living shooting people? (12)
15 Kicks a former hotel employee (5)
16 Left Lily standing painting on wall (6)
18 MC to honour aviator (8)
19 Receptacles for discarded coffin nails (8)
21 Sign protecting a shrew (6)
22 A stout container? (6)
26 Border on a bath back (4)
27 Correct time, the French way (4)

Solution 8,576



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

US rate fears prompt heavy setback in shares

By Terry Byland, UK Stock Market Editor

London had no choice but to follow the general setback across global stock markets yesterday afternoon as the latest US economic data prompted fears of a sharp rise in rates by the Federal Reserve, perhaps tomorrow when the September payroll numbers are due.

Trading volumes were fairly modest in London, but share prices went almost into freefall when Wall Street opened 40 Dow points off and yields on Federal bonds moved towards 8 per cent following news that growth in US factory orders and finished goods shipments had accelerated in August.

The FT-SE 100-share Index extended its fall by 25 points within an hour to touch the day's low of 2,550.2. A modest rally set in as Wall Street halved its early loss. The final reading put the FT-SE 100 at 2,956.3 for a drop on the session of 45.5 points. The Footsie now stands at its lowest level since early July and is barely 80 points above its low for the year.

Market confidence had been at a low ebb from the opening, as traders digested the implications of Wall Street's heavy fall overnight. Also discouraging was a prediction from James Capel, London's largest institutional stockbroker, that the FT-SE 100 Index would close the year at 2,840. Many City analysts are still forecasting a Footsie year-end close in the 3,400 to 3,600 range.

Conviction that US interest rates are about to be raised by a full percentage point bore heavily on London because rates in the UK are perceived to be the most vulnerable to pressures from across the Atlantic. However, there were hopes that determined action by the Federal Reserve might succeed in settling global bond markets down, a development regarded as the necessary basis for any genuine recovery in equities. British government bonds fared better than equities yesterday, giving some cause for comfort in what was essentially a badly unnerved stock market.

With the December contract on the FT-SE 100 Index playing its usual leading role, losses in equities were concentrated on the blue chip stocks. The FT-SE Mid 250 Index, which takes in a broad range of Footsie and non-Footsie shares, finished 26.1 points down at 3,429.2. Business in the non-Footsie equities made up around 57 per cent of the day's Seaq total, once again indicating reduced private investor interest.

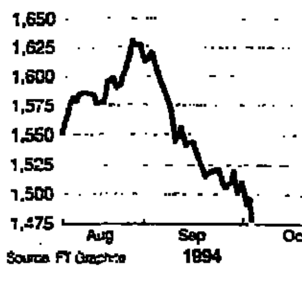
The speed of the market's downturn in mid-afternoon virtually put an end to serious business by the big investment institutions and, even after some courageous bargain hunting towards the close, overall busines volume was not particularly impressive. The day's Seaq total of 515.8m shares compared with 531.6m on Tuesday, when retail, or customer, business, worth £1.01bn, remained around acceptable levels from the view point of market profitability.

No sector of the market escaped from the overall setback. The US-influenced blue chips suffered for their association with Wall Street, although turnover in these stocks did not suggest significant selling pressure. Reed Elsevier was a weak spot after debt ratings were questioned in the wake of a £955m deal in the US.

Interest rate-related stocks, including the leading store groups, turned easier but losses were fairly small in spite of fears that domestic base rates could soon be under upward pressure if rates rise in the US. There were further losses in the financials sector, where the woes of the UK stock and bond markets have already hit profits at the merchant banks, which are heavy players in these arenas and also hold portfolios which were being devalued rapidly yesterday afternoon.

Traders said that the London market had clearly lost all confidence ahead of Friday's announcement of the US payroll data.

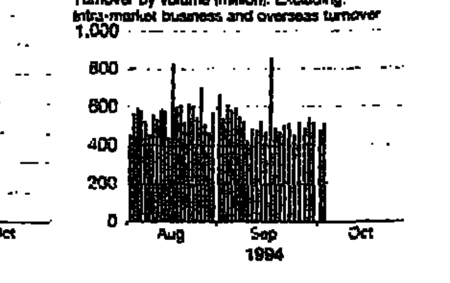
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	2956.3	-45.5	FT Ordinary index	2286.9	-38.9
FT-SE Mid 250	3429.2	-26.1	FT-SE-A Non Fins p/e	18.17	(18.43)
FT-SE-A 350	1487.7	-20.2	FT-SE 100 Fut Dec	2974.0	-45.0
FT-SE-A All-Share	1477.82	-19.62	10 yr Gilt yield	8.99	(8.96)
FT-SE-A All-Share yield	4.07	(4.02)	Long gilt/equity yld ratio:	2.21	(2.23)

Best performing sectors

1 Merchant Banks .... +0.9
2 Engineering, Vehicles .... +0.1
3 Textiles & Apparel .... -0.2
4 Other Financial .... -0.3
5 Oil Exploration & Prod .... -0.5

Worst performing sectors

1 Gas Distribution .... -2.5
2 Pharmaceuticals .... -2.2
3 Diversified Indls .... -2.2
4 Media .... -2.1
5 Chemicals .... -2.0

ICI hit by US selling

A two-way pull appeared to be developing in ICI shares yesterday as word went round the market that one US house was trying to steal a march on its rivals and call the top of the chemicals sector.

Relatively high turnover of 4m shares and a drop of 28 to 787p yesterday was attributed to heavy US selling, and some dealers said one house had taken the stock off its buy list as part of a macroeconomic rerating. Morgan Stanley was cited, although the investment bank denied any change of stance.

Shares in the UK's sector leader had reflected the boom in commodity prices and ICI stock touched an all-time high of 868p in early August. Since then it has fallen with the market, but many analysts have lifted profits forecasts for the company ahead of third-quarter figures due on October 27.

Goldman Sachs, for example, believes that the stock will outperform by 10 per cent until the new year. The house chemicals team cites double-digit growth in key commodities such as ethylene throughout September.

Reed lower

Anglo-Dutch publishing group Reed Elsevier was unfortunate in the timing of its announcement that it had made a £955m acquisition in the US and the fall in the share price masked a mixed but generally favourable reception.

Analysts said the company had had to pay a hefty price for the on-line legal information service it bought from Mead Corp but the cost would be offset by sizeable tax savings.

Ms Chris Munro of Hoare Govett argued that the group had gained access to a market that was growing by 9 per cent a year. But one analyst commented: "The deal poses as many strategic questions as it answers and they will need to do a lot of work to make it all add up." The stock closed 15 off at 740p.

Bank disappoints

Headline profits from Bank of Scotland were some £3m above the market's best expectations, but there was an element of disappointment with the 14 per cent dividend increase, which compared with some estimates that had ranged up to 20 per cent-plus.

The dividend disappointment, plus the general slide in the stock market, saw B of S shares underperform the FT-SE 100 Index and drop 10, or 4.8 per cent, to 196p. The FT-SE 100 fell 1.5 per cent.

The telecoms leaders were among the market's most resilient stocks, with NatWest Securities' "add" recommendation for BT, based on the stock's defensive qualities and dividend potential, helping the shares close marginally higher on the session at 364p.

Vodafone also attracted keen support after the strong subscriber numbers for the third quarter, which triggered widespread profits upgrades in the market. BZW was said to have been a big supporter of the shares yesterday.

Cable and Wireless was a lone poor performer, slipping 7 to 382p in spite of news that Bouygues Telecom, in which C&W has a 20 per cent stake, has been granted a licence to set up France's third mobile telephones network.

Strauss Turnbull, the stockbroker, issued 8m American-style call warrants on the group and accompanied the issue with a strong recommendation on the underlying stock, which it said was "seriously undervalued".

Retailing group Storehouse hardened 2 to 199p as brokers upgraded profits expectations following an upbeat statement on current trading to analysts and institutions.

Storehouse said sales for its first half were likely to be near 7 per cent ahead of last year and gross margins across the group were being maintained.

BZW was among brokers that upgraded, lifting its current year forecast by £4m to £80m, and the following year's figure by the same amount to £96m. However, Mr Tony Shiret at the investment bank remained cautious. He said: "The statement was reasonably encouraging but the shares are fairly rated given the excess capacity coming on stream over the next few years."

Worries over the outcome of the price war among food retailers continued to overhang Kwik Save. The shares lost a further 7 at 539p.

There was no shortage of institutional buyers for the rump of stock not taken up in **Commercial Union's** £322m rights offer. The issue was 91 per cent taken up and the remainder, some 6.4m shares, were easily placed in the market by Cazenove, CU's joint broker along with Hoare Govett, at 490p apiece. CU settled 3 higher at 497p.

Other insurers fell away with the market, **General Accident** receding 5 to 531p, **Royal Insurance** 9 to 275p and **Sun Alliance** 7 to 309p.

Merchant banks, severely mauled over the past two weeks after a series of profit warnings, staged a tentative rally but looked vulnerable at the close. **S.G. Warburg** finished only 3 up at 583p, while **Schroders** was 25 better at 1310p and **Kleinwort Benson** edged forward 3 to 436p.

Securities house UBS was said to have downgraded **Allied Domecq**. The shares fell 9 to 557p. **Bass** eased ¼ to 515½p as talk returned that it was to buy the Harvester chain of public houses from Forte, which closed 3 lower at 223p.

There was also speculation that **Scottish & Newcastle** was to buy Courage from Australian group Foster's. S&N softened 2 to 479p.

Among food manufacturers, **Tate & Lyle** tumbled 18 to 422p in trade of 1.6m, as the market reacted to Tuesday's "reduce" advice from NatWest Securities. A note from the broker reflected on the near-term outlook for the company after the US government announced last week the establishment of sugar marketing allotments.

Fresh produce group **Geest** bucked the poor market trend to finish 8 ahead at 202p on the news that the European Court of Justice had rejected a challenge to the European Union's banana import regulations. The challenge initiated by Germany could have led to stiffer competition for Geest.

British Airways dipped 2 to 354½p on 3.3m shares traded following a better than expected 7.3 per cent increase for passenger traffic volume in September.

Metals group **A. Cohen** jumped 30 to 540p ahead of figures due tomorrow.

Expectations of good news at today's annual meeting was unable to prevent **Ellis & Everard**, the chemicals distributor, shedding 3 to 258p.

MARKET REPORTERS:
Steve Thompson, Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 28

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (7).
EXTRACTIVE INDS (1) Coal Invs., **INVESTMENT TRUSTS (1) LEISURE & HOTELS (1)** Northern Cnv. 98/01. **MEDIA (1)** Elsevier **RETAILERS, GENERAL (1)** Austin Reed. **SPIRITS, WINES & CIDERS (1)** Macallan-Glenlivet. **TRANSPORT (1)** Go-Ahead.
NEW LOWS (299).
GILTS (5) BANKS (3) BREWERIES (1) Fuller STA. **BUILDING & CNSTRN (15)** AMEC 6.5p Prf., Barratt, Bellway, Boot (H), Bryant, Countryside, Crest Nichol, Higgs & Hill, McAlpine (A), Persimmon, Raine, Tay Homes, Westbury, Wilson Bowden, Wimpey (G). **BLDG MATLS & MCHTS (11)** Anglian, Cape, Hewitt, Heywood Wms., Do Prf., Meyer Intl., Polypipe, Ruberoid, SWP, Spring Ram, Titon. **CHEMICALS (5)** British Vita, Courtaulds, Hickson Intl., Laporte, Manders. **DISTRIBUTORS (12) DIVERSIFIED INDLS (10) ELECTRICITY (2)** Scot. Hydro, Scot. Power. **ELECTRNC & ELECT EQUP (8)** BICC Cap. Fin. 10¾pc Bds. 2020, DRS Data, Dowding & M., Forward, Johnson, Siemens. **ENGINEERING (19) ENG. VEHICLES (1)** Motor World. **EXTRACTIVE INDS (4) FOOD MANUF (2)** Bols Wessanen, Unigate. **HEALTH CARE (3)** AAH, Quality Care Homes, Scholl. **HOUSEHOLD GOODS (1)** Vymura. **INSURANCE (10) INVESTMENT TRUSTS (67) INVESTMENT COMPANIES (3) LEISURE & HOTELS (7)** Euro Disney, Flagstone, Hi-Tec, Kunick 8¼pc Prf., Ladbroke, Prism, Thorn EMI. **LIFE ASSURANCE (2)** Lincoln Natl., Transatlantic. **MEDIA (8)** Barbour Index, Copyright Promotions, Phonelink, Portsmouth & Sunderland, Sterling Publ., Telegraph. **MERCHANT BANKS (4)** Barings 8pc 2nd Prf. Do 9¾pc Prf., Singer & Friedlander, Wintrust. **OIL EXPLORATION & PROD (3)** Command, Coplex, Global Natural. **OIL, INTEGRATED (1)** Exxon. **OTHER FINANCIAL (10) OTHER SERVS & BUSNS (3)** Photo-Me, Platignum, Waste Mngmt.. **PHARMACEUTICALS (2)** Fisons, Grampian. **PRTNG, PAPER & PACKG (8)** Bemrose, Boxmore, Brit. Thornton, Delyn, Ferguson Intl., Ferry Pickering, RPC, St Ives. **PROPERTY (20) RETAILERS, FOOD (2)** Brake Bros., Regina. **RETAILERS, GENERAL (17) SUPPORT SERVS (8)** BBM, Black & Edgington, Macro 4, Misys, Sketchley, Stat-Plus. **TELECOMMUNICATIONS (2)** Cable & Wireless, Do 7pc Cnv. 2008. **TEXTILES & APPAREL (3)** Beckman (A), Dinkie Heel, Readicut. **TRANSPORT (2)** CSX, Dawsongroup. **AMERICANS (19).**

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures fell steeply in heavy volume, applying clear downward pressure to the cash market throughout the day, *writes Jeffrey Brown.*

The FT-SE 100 December contract pushed down to 2,955 at one stage but managed to climb back to 2,974 at the official 4:10 close, a decline on the day of 45 points.

At this level the premium to the cash market was 17.7 points, with the fair value premium standing at 15 points.

December trading volume rose sharply to 16,598 lots, from 10,383 in the previous session.

There was genuine selling pressure from the outset but the real downwards drive came once Wall Street had opened at 2:30pm London time.

From then on the premium to cash equities narrowed dramatically, squeezing down at times to within two points. Traders said US selling had been substantial.

Equally, there was obvious support at 2,955, in spite of the complete absence of institutional business. The tone on Wall Street is providing the main lead at the moment.

Turnover in traded options also moved up sharply, rising to 46,199 lots, almost double the previous day's total. FT-SE and Euro FT-SE volume accounted for more than 31,000 contracts.

National Westminster was the most actively traded stock option with 1,331 lots dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Dec	2988.0	2974.0	-45.0	2994.0	2956.0	17815	53792
Mar	3016.5	2998.0	-45.5	3016.5	2989.0	30	2175

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Dec	3445.0	3430.0	-48.0	3445.0	3430.0	25	4043

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Dec	-	3430.0	-	-	-	-	0

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2959) £10 per full index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Oct	170½	9	128	14	88½	24	58	42½	31½	69	16½	104	7	143½	3	193
Nov	198	25	157½	36	121	49½	90	68½	62½	92½	41½	122½	28½	159	16	200
Dec	214	39	178	53	143½	69	114	90½	87½	114	65½	143½	46½	175½	33	212
Jan	235½	52	198	65½	166	82½	137	103	109	125½	87½	154½	68	184½	52	221
Jun†	294	84			232½	121			175	163½			130½	219		

Calls 6,719 Puts 15,845

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2775		2825		2875		2925		2975		3025		3075		3125	
Oct	193½	7½	148½	12	108	19½	70	33	41	54	22	85	10½	123	4½	167
Nov	213½	19	173	28	135½	33	103½	57½	75	79	52½	108	34½	138	21½	174½
Dec	229	32½	191	43½	156½	58½	125	76½	97½	98½	75	125½	54½	154½	39	188
Mar			239½	71½			178½	105½			124	150½			82½	206
Jun†			281½	93½			220	128			167	171			121	221

Calls 4,531 Puts 3,013 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3400		3450		3500		3550	3600	3650	3700	3750
Oct	153	72½	125	94	100¾	118⅞					

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,600	317½	-3½
ASDA Group†	3,800	62¾	-¼
Abbey National†	2,500	383	-5
Albert Fisher	122	45	
Allied Domecq†	1,800	557	-9
Anglian Water	879	518	+1
Argos	438	309	-8
Argyll Group†	1,800	287½	-3½
Arjo Wiggins†	1,800	263	-4
Assoc. Brit. Foods†	238	500	-7
Assoc. Brit. Ports	472	260	-2
BAA†	1,900	464	-8
BAT Inds.†	1,800	417	-8½
BET	5,900	[illegible]	[illegible]
BICC	1,200	[illegible]	[illegible]
BOC†	467	[illegible]	[illegible]
BP†	7,300	[illegible]	[illegible]
BPB Inds.	2,300	[illegible]	[illegible]
BT†	11,000	[illegible]	[illegible]
BTR†	7,100	[illegible]	[illegible]
Bank of Scotland†	4,100	[illegible]	[illegible]
Barclays†	3,800	[illegible]	[illegible]
Bass†	900	[illegible]	[illegible]
Blue Circle†	4,000	[illegible]	[illegible]
Booker	465	[illegible]	[illegible]
Boots†	1,900	[illegible]	[illegible]
Bowater†	565	[illegible]	[illegible]
Brit. Aerospace†	605	[illegible]	[illegible]
British Airways†	5,000	[illegible]	[illegible]
British Gas†	7,100	[illegible]	[illegible]
British Land	903	[illegible]	[illegible]
British Steel†	4,700	[illegible]	[illegible]
Bunzl	3,000	[illegible]	[illegible]
Burmah Castrol†	221	[illegible]	[illegible]
Burton	9,800	[illegible]	[illegible]
Cable & Wire†	2,600	[illegible]	[illegible]
Cadbury Schweppes†	328	[illegible]	[illegible]
Caradon†	634	[illegible]	[illegible]
Carlton Comms.†	1,400	[illegible]	[illegible]
Coats Viyella	2,100	[illegible]	[illegible]
Comm. Union†	1,300	[illegible]	[illegible]
Cookson	1,100	[illegible]	[illegible]
Courtaulds†	2,100	[illegible]	[illegible]
Dalgety	222	[illegible]	[illegible]
De La Rue†	356	[illegible]	[illegible]
Dixons	257	[illegible]	[illegible]
Eastern Elect.†	1,900	[illegible]	[illegible]
East Midland Elect.	637	[illegible]	[illegible]
Electrocomps	209	[illegible]	[illegible]
Eng China Clays	110	[illegible]	[illegible]
Enterprise Oil†	1,000	[illegible]	[illegible]
Eurotunnel Units	670	[illegible]	[illegible]
FKI	343	[illegible]	[illegible]
Fisons	1,700	[illegible]	[illegible]
Foreign & Col. I.T.	342	[illegible]	[illegible]
Forte†	4,400	[illegible]	[illegible]
Gen. Accident†	886	[illegible]	[illegible]
General Elect.†	2,800	[illegible]	[illegible]

FT - SE Actuaries Share Indices — The UK Series

	Oct 5	Day's chge%	Oct 4	Oct 3	Sep 30	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2956.3	-1.5	3001.8	2983.5	3026.3	3100.8	4.28	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	3429.2	-0.8	3455.3	3449.8	3494.8	3471.6	3.64	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex Inv Trusts	3423.0	-0.7	3446.1	3441.9	3489.2	3478.8	3.81	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1487.7	-1.3	1507.9	1500.2	1521.4	1548.0	4.13	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	1776.61	-0.9	1795.39	1802.35	1814.20	1779.51	3.32	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	1750.29	-0.9	1765.94	1774.07	1785.64	1771.84	3.52	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1477.82	-1.3	1497.44	1490.83	1510.97	1533.47	4.07	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr	Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
Allied Domecq	540	24½	-	-	5	-	-	Hanson	220	12½	16½	19½	5½	11½	13
(*557)	589	3½	-	-	35½	-	-	(*225)	240	4	7	11	18	23	25
Argyll	260	13	21½	28	5	15½	18½	Lasmo	134	19	-	-	3	-	-
(*268)	280	4	12	18½	16½	28	30	(*148)	154	7	-	-	12	-	-
ASDA	60	6	8	9½	1½	4	5	Lucas Inds	180	8½	15	18½	11½	14	17½
(*63)	70	1	3½	5	8½	10	11	(*182)	200	3½	7½	11½	26	28	30½

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	10	52	8
Other Fixed Interest	0	0	15
Mineral Extraction	14	110	72
General Manufacturers	47	290	303
Consumer Goods	15	76	96
Services	23	239	235
Utilities	11	22	12
Financials	32	176	158
Investment Trusts	14	316	135
Others	7	73	24
Totals	173	1,354	1058

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	September 26	Expiry	December 29
Last Dealings	October 7	Settlement	January 13

Calls: Arcon Intl, BAT, Ovoca Res, Royal Ins, Tullow Oil. Puts: Arcon Intl, BAT, Ovoca Res, Tullow Oil. Puts & Calls: HSBC.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§125	F.P.	17.7	130	116	Compel	116		WN4.0	2.1	4.3	11.2
-	F.P.	1.30	1½	1	Cont'l Foods Wts	1¼		-	-	-	-
-	F.P.	26.0	66	61	Emerging Mkts C	65		-	-	-	-
63	F.P.	12.4	68	65	Ennemix	68		RN0.71	5.3	1.3	8.5
112	F.P.	21.4	120	118	Independent Parts	120		LN4.0	2.1	4.2	14.5
180	F.P.	17.6	195	180	Mackie Intl	183	-3	RN6.0	2.2	4.1	7.5
80	F.P.	23.3	85	76	Ryland	82	-3	LN3.5	1.7	5.3	13.5
-	F.P.	3.62	44	27	Suter Wts 99/04	31		-	-	-	-
-	F.P.	112.6	379	364	Templeton E New	364	-4	-	-	-	-
-	F.P.	11.8	212	191	Do. Wts. 2004	191	-4	-	-	-	-
-	F.P.	28.3	360	340	Wrexham Water	340		-	-	-	-
-	F.P.	4.81	330	325	Do. NV	325		-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
160	Nil	17/10	9pm	2pm	Jermyn Inv.	2pm	
500	Nil	18/10	52pm	24pm	Reckitt & Colman	25pm	-1
245	Nil	8/11	24pm	10pm	Unichem	10pm	-2
75	Nil	14/11	6pm	3pm	World of Leather	3pm	-1

FINANCIAL TIMES EQUITY INDICES

	Oct 5	Oct 4	Oct 3	Sep 30	Sep 29	Yr ago	*High	*Low
Ordinary Share	2286.9	2325.8	2320.3	2350.1	2323.8	2355.4	2713.6	2240.6
Ord. div. yield	4.51	4.42	4.43	4.38	4.43	3.97	4.51	3.43
Earn. yld. % full	6.51	6.39	6.40	6.33	6.39	4.67	6.51	3.82
P/E ratio net	17.18	17.49	17.46	17.67	17.49	27.37	33.43	16.94
P/E ratio nil	17.21	17.53	17.50	17.70	17.52	25.25	30.80	17.09

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94, low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2303.9	2302.4	2304.6	2307.7	2304.7	2298.0	2296.8	2289.0	2290.5	2308.0	2282.6

	Oct 5	Oct 4	Oct 3	Sep 30	Sep 29	Yr ago
SEAQ bargains	21,055	22,679	23,301	23,904	23,236	32,315
Equity turnover (£m)†	-	1066.2	1138.9	1123.4	1442.6	1581.9
Equity bargains†	-	25,427	25,436	26,768	27,001	36,254
Shares traded (ml)†	-	414.4	465.2	480.4	529.4	621.4

†Excluding intra-market business and overseas turnover.

LONDON SHARE SERVICE

BANKS

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

There seems little prospect that the 10 per cent WDAs will be raised in the near ... key attraction being the level of financial flows involved.

Tel: (071)-828-1681 Fax: (071)-828-9976

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's
TVX Gold ♥	455¾p	–3¾	490½p	338¾p	721.3	–
Toronto-Dom	9⅞xd	–⅛	11¾	9⅝	2,814	4.0
Trans Can Pipe ♥	8⅞	–⅞	10⅞	7⅞	1,470	4.8

SOUTH AFRICANS

	Notes	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£29¼	—	£30	£13½	1,906	2.5	21.4
Barlow	Z	£4⅛	—	£5⅝	£3⅞	888.4	0.7	–
Gold Flds Prop R		118xd	—	128	75	12.1	7.8	Φ
MK Props.	z	90	—	95	85	3.82	13.1	Φ
SASOL	♥	466	—	500	280	2,820	2.8	–
SA Brews		£11⅞	—	£15¾	£10	3,288	2.3	19.4
Tiger Oats	†	613	—	838	538	821.8	2.6	12.9
Tongaat-Hulett	h	602	—	*616½	356¼	549.7	2.1	16.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on BMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xs ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

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FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Exmt Aug 31	748.1	771.5	-13.1	0.88
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071-214 1000 (general enquiries) 071-214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	55.41	57.98	—	9.9
Income Plus	47.30	[illegible]	—	7.0
CAF - Charity Money Management				
48 Pembury Rd, Tonbridge TN9 2JD 0732 770114				
Balanced Growth	70.54	72.42	—	4.28
Income	[illegible]	[illegible]	—	[illegible]
CIM Unit Trust Managers Ltd				
Co-op Bank Ethical Br Sep 30	[illegible]	[illegible]	—	3.52
Cent. Bd. of Fin. of Church of England‡				
2 Fore Street, London EC2Y 5AD 071-588 1815				
Inv Fund Sep 30	643.30	650.00	-42.30	4.06
Fxd Int Sec Sep 30	142.75	148.85	-3.00	8.94
Deposit Fund: See Money Market Trust Funds.				

INSURANCES

AEGON Life Assurance Co (UK) Ltd

AEGON Hse, Lanark Sq, London E14 9XS 071-538 8800

Albany Life Assurance Co Ltd

3 Darkes Lane, Potters Bar EN6 1AJ 0707 660000

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Scottish Provident Group - Contd.

Pension Funds	Bid Price	Offer Price	+ or -	Yield Gross
With-Profits Ord	216.8	228.0	+0.1	-
Managed Ord	321.6	338.6	-2.3	-
Blue Chip Ord	143.6	151.2	-1.3	-
Equity Ord	334.2	351.8	-2.3	-
International Ord	354.0	372.6	-2.8	-
Property Ord	302.2	318.2	-	-
Fixed Interest Ord	287.9	303.2	-0.1	-
Index-linked Ord	190.9	201.1	-0.1	-
Cash Ord	261.5	275.4	+0.1	-
Building Society Ord	198.2	208.7	-	-
Americas Performance Ord	189.3	199.4	-0.1	-
Europe Performance Ord	118.9	125.3	-1.4	-
Far East Performance Ord	156.6	165.0	-0.7	-
Worldwide Performance Ord	165.8	174.6	-1.6	-

Scottish Provident Assurance Ltd Funds
(Formerly Profile Life & Pensions Ltd)

Life Funds	Bid Price	Offer Price	+ or -	Yield Gross
Adventurous Mngd	197.4	210.0	-1.6	-
Balanced Gwth Mngd	775.5	825.0	-4.9	-
Cautious Mngd	141.5	150.6	-0.9	-
Fixed Interest	433.6	457.0	-1.9	-
Gilt Fund 20	457.4	486.8	+0.2	-
Equity	916.6	975.4	-7.3	-
International	417.0	443.7	-3.3	-
Property	287.2	302.7	-	-
Cash	337.9	356.1	-	-
Special Situations	808.9	848.9	-2.9	-
High Income	669.2	712.0	-4.1	-
Extra Income	380.3	393.2	-2.3	-
Convertible & Gilt	171.4	182.4	-3.0	-
Pref & Fixed Interest	118.0	125.6	-0.1	-
Recovery	135.9	144.3	-0.7	-
UK Blue Chip	131.7	138.8	-0.9	-
American Income	201.8	214.7	-2.3	-
North American	517.0	550.1	-3.1	-
Far Eastern	632.8	673.2	-1.6	-
European	145.5	154.8	-1.5	-
Technology	508.6	541.1	-0.6	-
Equity Income Dist	113.1	118.2	-0.7	4.93

Swiss Life (UK) PLC

101 London Rd, Sevenoaks

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

There seems little prospect that the 10 per cent VIDAs will be raised in the near ... key attraction being the level of financial flows involved.

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Bank Von Ernst & Cie AG

Hypo Foreign & Colonial Port Fd Sicav(u)

INVESCO International Limited (u)

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

Jupiter Tyndall Global Fund

CMI Asset Management (Luxembourg) SA

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Political worries hit lira

Renewed tensions in Italy between the government and magistrates investigating corruption yesterday prompted a sharp fall in the lira, *writes Philip Gawith.*

Fears that investigations were reaching ever higher into government, possibly to the point where prime minister Mr Silvio Berlusconi might be implicated, saw the lira fall to a London close of L1,016, from L1,008.

Elsewhere on the foreign exchanges, the dollar was again weaker. Stronger than expected factory order figures caused bond prices to fall, and the dollar fell in tandem. The dollar finished at DM1.5426 and Y99.47, from DM1.5519 and Y99.69 respectively.

The Russian rouble continued its recent fall, closing in Moscow at Rbs2,808 to the dollar from Rbs2,668. The Russian currency started the year around Rbs1,250 to the dollar.

Sterling was firmer on the day, with the trade weighted index finishing at 80.2 from 80.

■ With renewed political instability in Italy, some observers believe the lira will test the low for the year of L1.030.50 against the D-Mark.

Mr Stephen Yorke, analyst at Chase Manhattan in London, commented: "I think the government is encircled. The magistrates seem on the verge of implicating very senior members of government. If that were to happen, the lira would, at the very least, re-test the lows for the year."

"If it looks like Mr Berlusconi will be investigated (by the magistrates), then I think we will be in for free fall," said Mr Yorke.

Elsewhere in Europe the Swiss franc and D-Mark were both generally firmer as the weakness in the lira spread to the French franc and other currencies. The Franc closed at FFr3.418, from FFr3.415, against the D-Mark.

■ The catalyst for the rouble's recent weakness was the central bank's decision, on 22 September, to stop intervening to support the currency. Over the two to three months prior to this, according to Mr Sergei Alexashenko, the deputy finance minister, the central bank had spent more than $2bn defending the rouble.

Lira

Against the D-Mark (Lire per DM)

Source: Datastream

■ **Pound in New York**

Oct 5	Latest	Prev. close
£ spot	1.5855	1.5815
1 mth	1.5850	1.5809
3 mth	1.5841	1.5800
1 yr	1.5689	1.5657

The main reason for the currency's weakness would appear to be the high rate of inflation. Consumer price inflation in the year to August was 267.9 per cent.

However, some bankers argue that the rouble's recent fall merely reflects the central bank trying to drive the rate lower, in order that it can sell hard currency to help pay the government's debts.

Mr Jonathan Hoffman, international economist at CS First Boston in London, said the rouble, after a period of relative stability, was merely catching up for recent inflation losses. He added, however, that despite recent weakness, the rouble's real value was probably about 10 per cent higher than at the start of the year.

■ The weakness of the dollar came against the backdrop of market fears that the Fed was not being sufficiently aggressive in combatting inflation. This view was encouraged by the higher than expected factory orders figures.

Comments in Jeddah from Mr Lloyd Bentsen, the US treasury secretary, that the fundamentals supporting the dollar were the best in 20 years, and that the US did not use the dollar as a trade tool, were ignored by the market.

Mr George Magnus, international economist at SG Warburg, argues that even a 50 basis point rise in US rates "would constitute fire-fighting...and at best could be expected to hold the dollar in its current range for a while longer."

"A significant dollar recovery will only be seen once confidence in the Federal Reserve has returned, sufficient to spark an inflow of long-term capital into US asset markets," said Mr Magnus.

"The inability of either equity or bond markets to make headway during 1994 does not provide us with much confidence on this score, and the combination of higher inflation, higher rates and slower growth in the next few months hardly seems the recipe for a change in trend over the winter."

Taking a slightly different view is Mr David Munro, chief US economist at High Frequency Economics in New York. He says the special feature of the current US economic recovery, is ongoing restructuring, and competitive resistance to higher finished goods prices.

"This is why a merely fractional acceleration of inflation is due. That will give the Fed a rationale to moderate its boost to short rates" said Mr Munro.

■ In the weekly repo tender, the Bundesbank allocated DM74.2bn in 14-day securities repurchase agreements, at a fixed interest rate of 4.85 per cent – the 11th consecutive pact at this level. This constituted a net addition of DM4.9bn to the market. Call money rates eased slightly to 4.85/4.95 per cent.

In the UK, the Bank of England provided £385m assistance to UK money markets, compared with a shortage of £600m. Overnight money traded between 5¼ and 7 per cent. The Bank also said it would today provide £1.359bn to the market by way of repo and secured loan facilities

■ **OTHER CURRENCIES**

Oct 5	£	$
Hungary	171.550 - 171.762	108.090 - 108.190
Iran	2753.00 - 2756.00	1748.00 - 1750.00
Kuwait	0.4717 - 0.4731	0.2972 - 0.2980
Poland	36836.6 - 36895.8	23210.0 - 23240.0
Russia	4381.20 - 4387.10	2760.00 - 2770.00
U.A.E.	5.8224 - 5.8341	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Oct 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2323	-0.002	256 - 390	17.2644	17.2033	17.228	0.3	17.2161	0.4	-	-	115.0
Belgium	(BFr)	50.3865	+0.0102	698 - 031	50.5060	50.2830	50.4065	-0.5	50.3215	0.5	49.9915	0.8	116.7
Denmark	(DKr)	9.5978	+0.0095	947 - 009	9.6110	9.5725	9.5971	0.1	9.6066	-0.4	9.6107	-0.1	116.7
Finland	(FM)	7.6112	+0.0292	021 - 203	7.6400	7.5750	-	-	-	-	-	-	87.3
France	(FFr)	8.3680	+0.0043	643 - 717	8.4012	8.3479	8.3682	0.0	8.3624	0.3	8.2913	0.9	110.4
Germany	(DM)	2.4486	-0.0009	478 - 493	2.4543	2.4428	2.4475	0.5	2.444	0.8	2.4113	1.5	126.0
Greece	(Dr)	373.504	+0.358	127 - 880	374.053	372.515	-	-	-	-	-	-	-
Ireland	(I£)	1.0113	-0.0001	108 - 118	1.0133	1.0086	1.0112	0.1	1.0114	-0.1	1.0136	-0.2	105.5
Italy	(L)	2487.38	+17.89	619 - 856	2496.05	2463.70	2493.38	-2.9	2505.88	-3.0	2556.38	-2.8	74.8
Luxembourg	(LFr)	50.3865	+0.0102	698 - 031	50.5060	50.2830	50.4065	-0.5	50.3215	0.5	49.9915	0.8	116.7
Netherlands	(Fl)	2.7426	-0.0007	417 - 434	2.7516	2.7370	2.7415	0.5	2.7377	0.7	2.7019	1.5	120.8
Norway	(NKr)	10.6778	+0.0059	745 - 811	10.7010	10.6493	10.6773	0.1	10.6808	-0.1	10.6818	0.0	96.1
Portugal	(Es)	249.929	+0.376	651 - 206	250.380	249.245	251.659	-8.3	254.839	-7.9	-	-	-
Spain	(Pta)	203.134	+0.295	038 - 229	203.391	202.587	203.474	-2.0	204.159	-2.0	206.494	-1.7	85.9
Sweden	(SKr)	11.7270	+0.0484	178 - 363	11.7399	11.6507	11.746	-1.9	11.7935	-2.3	12.007	-2.4	76.7
Switzerland	(SFr)	2.0294	-0.008	283 - 305	2.0348	2.0280	2.0267	1.6	2.0205	1.8	1.9779	2.5	123.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.2
Ecu	-	1.2812	+0.001	804 - 819	1.2830	1.2779	1.281	0.1	1.2809	0.1	1.2752	0.5	-
SDR†	-	0.925911	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5844	+0.0088	841 - 847	1.5848	1.5765	-	-	-	-	-	-	-
Brazil	(R)	1.3453	+0.0052	443 - 463	1.3473	1.3378	-	-	-	-	-	-	-
Canada	(C$)	2.1397	+0.0178	389 - 404	2.1414	2.1257	2.1388	0.6	2.1365	0.6	2.1252	0.7	87.7
Mexico	(New Peso)	5.4137	+0.0367	088 - 185	5.4191	5.3924	-	-	-	-	-	-	-
USA	($)	1.5874	+0.0089	871 - 876	1.5880	1.5795	1.5868	0.5	1.5858	0.4	1.5714	1.0	82.1
Pacific/Middle East/Africa													
Australia	(A$)	2.1484	+0.0103	453 - 474	2.1475	2.1362	2.1463	0.0	2.1477	-0.2	2.1659	-0.9	-
Hong Kong	(HK$)	12.2665	+0.0689	642 - 688	12.2705	12.2069	12.2626	0.4	12.2615	0.2	12.2685	0.0	-
India	(Rs)	49.7912	+0.2732	794 - 030	49.8080	49.5530	-	-	-	-	-	-	-
Japan	(Y)	157.894	+0.538	837 - 950	158.190	157.010	157.454	3.3	156.409	3.8	150.874	4.4	187.5
Malaysia	(M$)	4.0708	+0.0227	693 - 722	4.0740	4.0520	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6311	+0.0141	285 - 337	2.6346	2.6172	2.635	-1.8	2.6428	-1.8	2.685	-1.3	-
Philippines	(Peso)	40.6362	+0.1469	504 - 219	40.7230	40.3865	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9559	+0.0342	545 - 572	5.9577	5.9257	-	-	-	-	-	-	-
Singapore	(S$)	2.3395	+0.0025	383 - 406	2.3423	2.3359	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6724	+0.0345	691 - 757	5.6775	5.6428	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.6986	+0.0375	817 - 155	6.7175	6.6494	-	-	-	-	-	-	-
South Korea	(Won)	1268.85	+5.22	825 - 945	1269.97	1263.52	-	-	-	-	-	-	-
Taiwan	(T$)	41.5370	+0.2289	265 - 475	41.5500	41.3197	-	-	-	-	-	-	-
Thailand	(Bt)	39.6836	+0.1909	616 - 059	39.7080	39.5030	-	-	-	-	-	-	-

†SDR rates for Oct 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.8560	-0.0625	535 - 585	10.8940	10.8535	10.856	0.0	10.8558	0.0	10.781	0.7	104.1
Belgium	(BFr)	31.7425	-0.1725	370 - 480	31.8450	31.7370	31.7425	0.0	31.7525	-0.1	31.8125	-0.2	105.7
Denmark	(DKr)	6.0464	-0.0281	454 - 474	6.0648	6.0454	6.0491	-0.5	6.0579	-0.8	6.1164	-1.2	105.1
Finland	(FM)	4.7949	-0.0086	899 - 999	4.8169	4.7891	4.7954	-0.1	4.7974	-0.2	4.8144	-0.4	81.9
France	(FFr)	5.2717	-0.027	702 - 732	5.2971	5.2702	5.2735	-0.4	5.2733	-0.1	5.2767	-0.1	106.5
Germany	(D)	1.5426	-0.0093	423 - 428	1.5482	1.5423	1.5427	-0.1	1.5412	0.4	1.5348	0.5	106.6
Greece	(Dr)	235.300	-1.1	100 - 500	235.770	235.100	235.6	-1.5	236.175	-1.5	238.675	-1.4	68.8
Ireland	(I£)	1.5697	+0.0069	691 - 702	1.5710	1.5637	1.5694	0.2	1.5682	0.4	1.5495	1.3	-
Italy	(L)	1567.00	+2.5	650 - 750	1574.90	1558.20	1571.5	-3.4	1579.6	-3.2	1623.5	-3.6	75.7
Luxembourg	(LFr)	31.7425	-0.1725	370 - 480	31.8450	31.7370	31.7425	0.0	31.7525	-0.1	31.8125	-0.2	105.7
Netherlands	(Fl)	1.7278	-0.0102	275 - 280	1.7360	1.7275	1.7279	0.0	1.7264	0.3	1.7195	0.5	105.5
Norway	(NKr)	6.7268	-0.0342	258 - 278	6.7582	6.7258	6.733	-1.1	6.7513	-1.5	6.8058	-1.2	96.2
Portugal	(Es)	157.450	-0.65	300 - 600	157.770	157.300	158.155	-5.4	159.4	-5.0	163.7	-4.0	95.0
Spain	(Pta)	127.970	-0.535	930 - 010	128.350	127.930	128.235	-2.5	128.745	-2.4	131.42	-2.7	80.8
Sweden	(SKr)	7.3878	-0.011	830 - 925	7.4158	7.3682	7.4021	-2.3	7.4333	-2.5	7.6043	-2.9	81.2
Switzerland	(SFr)	1.2785	-0.011	780 - 790	1.2862	1.2780	1.2773	1.2	1.2741	1.4	1.2588	1.5	108.1
UK	(£)	1.5874	+0.0089	871 - 876	1.5880	1.5795	1.5868	0.5	1.5858	0.4	1.5714	1.0	88.4
Ecu	-	1.2390	+0.0059	385 - 395	1.2395	1.2355	1.2384	0.6	1.2376	0.5	1.2323	0.5	-
SDR†	-	1.46294	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9982	-	981 - 982	0.9983	0.9981	-	-	-	-	-	-	-
Brazil	(R)	0.8475	-0.0015	470 - 480	0.8480	0.8470	-	-	-	-	-	-	-
Canada	(C$)	1.3480	+0.0037	477 - 482	1.3500	1.3452	1.3482	-0.1	1.3473	0.2	1.3525	-0.3	84.5
Mexico	(New Peso)	3.4105	+0.004	080 - 130	3.4150	3.4080	3.4115	-0.4	3.4133	-0.3	3.4207	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3622	-0.0011	517 - 526	1.3535	1.3514	1.3525	-0.2	1.3532	-0.3	1.3605	-0.6	88.7
Hong Kong	(HK$)	7.7277	+0.0001	274 - 279	7.7279	7.7260	7.7274	0.0	7.7283	0.0	7.7432	-0.2	-
India	(Rs)	31.3675	-0.0038	650 - 700	31.3700	31.3650	31.4525	-3.3	31.5975	-2.9	-	-	-
Japan	(Y)	99.4700	-0.22	500 - 900	99.7300	99.3000	99.23	2.9	98.63	3.4	95.955	3.5	148.8
Malaysia	(M$)	2.5645	-0.0001	640 - 650	2.5655	2.5640	2.5553	4.3	2.544	3.2	2.6175	-2.1	-
New Zealand	(NZ$)	1.6576	-0.0004	562 - 589	1.6589	1.6562	1.6596	-0.7	1.6604	-0.7	1.6657	-0.5	-
Philippines	(Peso)	25.6000	-0.05	500 - 500	25.7500	25.5500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7521	+0.0005	518 - 523	3.7523	3.7515	3.7534	-0.4	3.7575	-0.6	3.7761	-0.6	-
Singapore	(S$)	1.4738	-0.0068	733 - 743	1.4805	1.4732	1.4725	1.1	1.4706	0.9	1.4638	0.7	-
S Africa (Com.)	(R)	3.5735	+0.0017	720 - 750	3.5795	3.5633	3.589	-5.2	3.6173	-4.9	3.694	-3.4	-
S Africa (Fin.)	(R)	4.2200	-	100 - 300	4.2300	4.2000	4.2537	-9.6	4.3125	-8.8	-	-	-
South Korea	(Won)	799.350	-1.2	100 - 600	800.700	799.100	802.35	-4.5	805.85	-3.3	824.35	-3.1	-
Taiwan	(T$)	26.1675	-0.0025	650 - 700	26.1700	26.1540	26.1875	-0.9	26.2275	-0.9	-	-	-
Thailand	(Bt)	25.0000	-0.02	900 - 100	25.0150	24.9900	25.0725	-3.5	25.2	-3.2	25.68	-2.7	-

†SDR rate for Oct 4. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 4. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.05	16.61	4.859	2.007	4936	5.443	21.18	496.0	403.1	23.26	4.027	1.985	4.246	3.150	313.2	2.543
Denmark	(DKr)	52.50	10	8.719	2.551	1.053	2591	2.857	11.12	260.4	211.6	12.21	2.114	1.042	2.229	1.654	164.4	1.335
France	(FFr)	60.21	11.47	10	2.925	1.208	2972	3.277	12.75	298.6	242.7	14.01	2.425	1.195	2.556	1.897	188.8	1.531
Germany	(DM)	20.58	3.920	3.418	1	0.413	1016	1.120	4.359	102.1	82.97	4.788	0.829	0.408	0.874	0.648	64.46	0.523
Ireland	(I£)	49.83	9.493	8.277	2.421	1	2460	2.712	10.55	247.2	200.9	11.59	2.007	0.989	2.116	1.570	156.1	1.267
Italy	(L)	2.026	0.386	0.336	0.098	0.041	100.	0.110	0.429	10.05	8.166	0.471	0.082	0.040	0.086	0.064	6.345	0.052
Netherlands	(Fl)	18.37	3.500	3.052	0.893	0.369	907.0	1	3.891	91.14	74.07	4.274	0.740	0.365	0.780	0.579	57.55	0.467
Norway	(NKr)	47.22	8.994	7.843	2.294	0.948	2331	2.570	10	234.2	190.3	10.98	1.902	0.937	2.005	1.487	147.9	1.201
Portugal	(Es)	20.16	3.840	3.349	0.980	0.405	995.2	1.097	4.270	100.	81.27	4.690	0.812	0.400	0.856	0.635	63.15	0.513
Spain	(Pta)	24.81	4.725	4.120	1.205	0.498	1225	1.350	5.254	123.0	100.	5.771	0.999	0.492	1.053	0.781	77.70	0.631
Sweden	(SKr)	42.99	8.189	7.140	2.089	0.863	2122	2.340	9.104	213.2	173.3	10	1.731	0.853	1.825	1.354	134.6	1.093
Switzerland	(SFr)	24.83	4.730	4.124	1.207	0.498	1226	1.351	5.259	123.2	100.1	5.776	1	0.493	1.054	0.782	77.77	0.631
UK	(£)	50.38	9.597	8.368	2.448	1.011	2487	2.742	10.67	249.9	203.1	11.72	2.029	1	2.139	1.587	157.8	1.281
Canada	(C$)	23.55	4.487	3.912	1.144	0.473	1163	1.282	4.988	116.8	94.95	5.479	0.949	0.468	1	0.742	73.77	0.599
US	($)	31.75	6.047	5.273	1.543	0.637	1567	1.728	6.723	157.5	128.0	7.385	1.279	0.630	1.348	1	99.43	0.807
Japan	(Y)	31.93	6.082	5.303	1.551	0.641	1576	1.738	6.762	158.4	128.7	7.427	1.286	0.634	1.356	1.006	100.	0.812
Ecu		39.33	7.492	6.532	1.911	0.789	1941	2.141	8.329	195.1	158.5	9.149	1.584	0.781	1.670	1.239	123.2	1

EMS EUROPEAN CURRENCY UNIT RATES

Oct 5	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14921	-0.00172	-2.16	5.43	-
Ireland	0.808628	0.791936	-0.001142	-2.06	5.32	14
Belgium	40.2123	39.4803	-0.0193	-1.82	5.06	13
Germany	1.94964	1.91885	-0.00177	-1.58	4.80	-
France	6.53883	6.55654	+0.0001	0.27	2.87	-2
Denmark	7.43679	7.51690	+0.00083	1.08	2.05	-7
Portugal	192.854	195.813	+0.036	1.53	1.69	-10
Spain	154.250	159.102	+0.083	3.15	0.00	-22

NON ERM MEMBERS

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9300	0.37	0.12	0.14	0.19	0.87	1.55
9325	0.21	0.07	0.10	0.28	1.07	1.76
9350	0.10	0.03	0.07	0.42	1.28	1.96

Est. vol. total, Calls 16068 Puts 8076. Previous day's open int., Calls 294177 Puts 181133

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williman Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk.	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25	* In administration	
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	8		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 5 / Sch)

BELGIUM/LUXEMBOURG (Oct 5 / Frs.)

DENMARK (Oct 5 / Kr)

FINLAND (Oct 5 / Mks)

FRANCE (Oct 5 / Frs.)

GERMANY (Oct 5 / Dm.)

NETHERLANDS (Oct 5 / Fl.)

NORWAY (Oct 5 / Kroner)

SPAIN (Oct 5 / Pts.)

SWEDEN (Oct 5 / Kronor)

SWITZERLAND (Oct 5 / Frs.)

ITALY (Oct 5 / Lire)

PACIFIC

JAPAN (Oct 5 / Yen)

AUSTRALIA (Oct 5 / Aus$)

HONG KONG (Oct 5 / H.K.$)

MALAYSIA (Oct 5 / M.YR)

SINGAPORE (Oct 5 / S$)

NORTH AMERICA

CANADA

TORONTO (Oct 5 / Can $)

4 pm close

MONTREAL (Oct 5 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Oct 5 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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TOKYO - MOST ACTIVE STOCKS: Wednesday, October 5, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	6.1m	385	+1	Nomura Secs	2.6m	1990	+10
Kawasaki Steel	5.1m	443	+4	Sumitomo Mtl	2.6m	339	+1
Nissan Motor	3.8m	808	−2	Matsushita	2.4m	1580	+10
Toshiba	3.7m	732	−3	NKK	2.3m	289	+6
Hitachi	3.4m	968	−3	Mitsubishi Elec	2.1m	705	+4

INDICES

	Oct 5	Oct 4	Oct 3	1994 High		1994 Low	
Argentina							
General (29/12/77)	(u)	20315.88	20507.39	25470.40	16/2	17758.90	20/4
Australia							
All Ordinaries(1/1/80)	1979.8	1998.0	2030.9	2340.60	3/2	1957.40	27/6
All Mining(1/1/80)	1044.1	1056.3	1071.8	1138.10	3/2	904.60	5/5
Austria							
Credit Aktien(30/12/84)	390.78	392.69	396.52	460.66	3/2	390.78	5/10
Traded Index(2/1/91)	1048.15	1051.54	1059.86	1222.26	1/2	1011.38	8/6
Belgium							
BEL20 (1/1/91)	1338.33	1367.57	1363.94	1542.65	9/2	1338.33	5/10
Brazil							
Bovespa (29/12/83)	(u)	53351.0	(c)	55110.00	13/9	3800.90	3/1
Canada							
Metals Minls♦(1975)	(u)	4029.53	4141.30	4250.89	19/9	3290.06	20/4
Composite♦ (1975)	(u)	4274.30	4344.70	4809.90	23/3	3959.80	24/6
Portfolio§§ (4/1/83)	(u)	2080.13	2065.85	2182.89	1/2	1908.48	28/6
Chile							
IPGA Gen (31/12/80)	(u)	5192.3	5161.9	5192.30	4/10	3901.20	4/4
Denmark							
CopenhagenSE(3/1/83)	341.18	346.42	347.83	415.79	2/2	341.18	5/10
Finland							
HEX General(28/12/90)	1889.0	1901.0	1892.5	1972.00	4/2	1601.18	3/1
France							
SBF 250 (31/12/90)	1238.08	1262.63	1251.82	1585.20	2/2	1238.08	5/10
CAC 40(31/12/87)	1863.72	1876.12	1852.83	2355.93	2/2	1852.83	3/10
Germany							
FAZ Aktien(31/12/58)	742.04	754.00	(c)	858.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2116.30	2150.00	(c)	2485.50	2/5	2116.30	5/10
DAX (30/12/87)‡	1968.72	1994.95	(c)	2271.11	16/5	1968.72	5/10
Greece							
Athens SE(31/12/80)	873.58	881.55	850.15	1184.58	18/1	866.67	25/5
Hong Kong							
Hang Seng(31/7/64)	9298.36	9504.12	9492.48	12201.09	4/1	8388.44	4/5
India							
BSE Sens.(1979)	4350.05	4365.14	4339.48	4597.99	27/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	503.64	500.72	487.90	612.89	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1800.48	1818.92	1824.35	2082.16	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	641.94	657.98	667.74	817.17	10/5	588.85	10/1
MIB General (4/1/94)	1040.0	1066.0	1061.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19751.55	19568.61	19650.03	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	289.89	287.50	288.95	311.71	13/6	268.22	4/1
Topix (4/1/68)	1582.05	1572.79	1579.00	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2243.28	2229.22	2236.11	2542.85	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	1133.72	1125.88	1127.35	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2670.02	2686.01	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	419.3	427.2	427.0	454.90	31/1	406.30	21/6
CBS All Shr (End 83)	263.4	268.3	268.2	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	2035.01	2057.50	2077.23	2438.64	3/2	1945.51	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1040.49	1049.74	1040.25	1211.10	28/2	980.81	21/6
Philippines							
Manila Comp (2/1/85)	2973.31	2953.61	2915.9	3308.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	(c)	2905.6	2881.0	3225.60	18/2	2612.80	20/6
Singapore							
SES All-S'pore(2/4/75)	584.69	581.76	579.83	641.81	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2368.0♥	2400.0	2424.0	2534.00	7/9	1748.00	14/2
JSE Indl. (28/9/78)	6270.0♥	6300.0	6305.0	6757.00	15/6	5448.00	19/1
South Korea							
KoreaCmpEx(4/1/80)‾	1057.24	1064.64	(c)	1084.64	4/10	855.37	2/4
Spain							
Madrid SE (30/12/85)	290.07	295.72	294.69	358.31	31/1	290.07	5/10
Sweden							
AffarsvardnGen (1/2/37)	1384.20	1406.40	1402.70	1603.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1171.96	1189.90	1180.43	1423.34	31/1	1157.97	18/7
SBC General (1/4/87)	888.07	901.35	894.10	1093.29	31/1	888.07	5/10
Taiwan							
WeightedPr.(30/6/66)‾	6944.59	7179.92	7183.75	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1482.89	1500.93	1488.55	1753.73	4/1	1198.59	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	26783.02	27065.1	26373.6	28883.60	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)$	616.0*	618.3	622.0	644.00	2/9	581.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1286.48	1312.97	1309.82	1340.19	31/1	1286.48	5/10
Euro Top-100 (26/6/90)	1136.48	1157.12†	1153.10	1311.01	2/2	1136.48	5/10
JCapelDrgns (31/12/88)	(u)	336.07	334.32	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	188.28	189.85	189.76	191.78	25/9	141.55	21/4

‾ Sat Oct 1 : Taiwan Weighted Price 7135.12; Korea Comp Ex 1054.23. Base values of all Indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold - 255.7; JSE 26 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 5 - 1946.49 –42.18

CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	1860.0	1841.0	-45.0	1868.0	1836.0	23,700	29,633
Nov	1870.0	1849.0	-45.0	1870.0	1850.0	214	472
Dec	1879.5	1858.5	-45.0	1880.5	1857.0	1,021	26,099

Open interest figures for previous day.

US INDICES

Dow Jones	Oct 4	Oct 3	Sep 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3801.13	3846.89	3843.19	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	96.73	96.96†	96.71	105.61 (21/1)	96.43 (13/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1459.22	1486.00	1491.59	1862.29 (2/2)	1459.22 (4/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	178.68	180.60	181.45	227.86 (3/1)	175.85 (20/9)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3873.47 (3872.79) Low 3789.35 (3809.21) (Theoretical♦)
Day's high 3858.33 (3851.93) Low 3794.40 (3828.09) (Actual♦)

Standard and Poors	Oct 4	Oct 3	Sep 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	454.59	461.74	462.69	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	538.12	547.77	548.18	560.83 (15/9)	510.05 (21/4)	560.83 (15/9/94)	3.62 (21/6/32)
Financial	42.16	42.83†	43.12	46.94 (14/6)	41.39 (4/4)	48.46 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	251.46	254.84	255.52	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	453.81	458.45	458.81	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	747.31	760.88	764.29	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Sep 30	Sep 23	Sep 16	Year ago
Dow Jones Ind. Div. Yield	2.76	2.76	2.69	2.85
	Sep 28	Sep 21	Sep 14	Year ago
S & P Ind. Div. yield	2.39	2.41	2.37	2.51
S & P Ind. P/E ratio	20.78	20.64	20.91	27.52

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	455.05	454.85	-0.20	455.75	454.10	98,710	214,763
Mar	-	458.20	-	-	-	1,533	7,678
Jun	-	462.00	-	-	-	387	2,578

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Micron	5,033,900	30⅞	-1⅛
Merck	4,867,300	36¼	-¼
Mark IV	4,609,200	21⅛	-1⅛
Ford Motor	3,693,700	27⅞	-⅜
Telefonos	3,587,700	60⅜	-1⅝
Wal-Mart	3,383,300	22⅜	-½
Marion Mer	3,371,000	25⅞	+2⅞
Adv Micro	3,227,400	25	-1½
Amer Express	3,198,700	30⅛	+⅛
Gen Motors	3,108,200	45⅜	-1⅛

TRADING ACTIVITY

● Volume (million)

	Oct 4	Oct 3	Sep 30
New York SE	325.517	269.112	291.902
Amex	16.799	27.326	30.459
NASDAQ	302.993	222.607	278.095
NYSE			
Issues Traded	2,884	2,852	2,856
Rises	551	831	1,286
Falls	1,715	1,341	847
Unchanged	598	680	723
New Highs	35	40	65
New Lows	127	77	73

† Correction. * Calculated at 15.00 GMT. ♠ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close October 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅜	12¼	AAR	0.48	3.8	21	92	12¾	12½	12⅝	
17¼	12⅝	A L Labs A	0.18	1.1	37	161	16⅛	16	16	-⅛
78¼	57⅝	AMP	1.68	2.2	26	2458	75½	73¾	75	-⅝
72¾	50½	AMR			85	15838	48⅜	d45¾	46½	-2
5	3⅛	ARX			13	86	3⅞	3⅞	3⅞	
56⅛	38⅝	ASA	2.00	3.9	33	515	52	51⅛	51¼	-¼
31⅞	25¾	AbbtL	0.76	2.5	16	8353	30⅝	30⅛	30½	-⅜
15¾	11⅞	Abitibi Pr	0.50	3.5	10	242	14⅞	14	14⅞	-⅛
23⅝	17¼	ABM Ind	0.52	2.6		63	20½	20	20¼	-¼
15⅞	11⅛	Acpincoln			22	1196	u15¾	15⅛	15¾	+½
31	22⅞	ACE Ltd x	0.44	1.8	30	117	24⅝	24	24⅝	+⅛
12½	9⅝	ACM Gvt In x	1.09	11.2		247	9¾	d9⅝	9¾	+⅛
10⅛	7	ACM GvOpp x	0.80	11.2		71	7¼	7⅛	7⅛	
10⅝	7⅜	ACM Gvt Sp x	0.98	13.2		294	7⅜	d7⅛	7¼	-⅛
12	8⅜	ACM Gvt Se x	1.09	12.8		467	8½	d8⅜	8½	
11¾	8⅛	ACM Man x	1.08	13.1		125	8⅜	d8¼	8¼	-⅛
9¼	8	ACM Managd x	0.72	8.7		273	8¼	8¼	8¼	
15½	9¾	AcmeClv	0.44	3.5	15	114	13⅛	12½	12¾	-⅜
9⅞	6½	Acme Elect			7	65	9½	9¼	9¼	-⅛
38¾	23	Acordia	0.60	2.2	13	367	27½	27¼	27⅜	-¼
13¾	5¾	Actava	0.36	3.6	2	375	10⅛	9⅞	10	+⅛
17	11¼	Acuson			127	1313	16¾	16⅜	16⅝	-⅛
18⅜	16½	Adams Expr	0.48	2.8	0	69	17⅛	17	17⅛	
64	46½	Ad Micro	3.00	5.6		362	53⅞	52½	53¾	+¼
31¾	16¾	AdvMic	3.00	11.9	10	23550	25¾	24⅞	25⅛	
6⅞	5	Advest Grp	0.16	3.1	8	125	5⅛	d5	5⅛	
20	15	Advo Inc x	0.10	0.6	114	11	17¼	17	17⅛	-⅛
59½	49⅜	Aegon ADR	1.47	2.6	12	56	57	55⅜	56⅞	+¼
65¾	44⅝	AetnaL	2.76	6.0	7	2119	46½	46	46¼	
36⅛	25¼	Aflac	0.46	1.4	14	949	33¼	32½	32⅝	-½
22¾	16⅜	Ahmanson	0.88	4.5	14	3040	20⅛	19½	19⅝	-½
4	1⅞	Aileen Inc			1	7	2⅜	2¼	2⅜	+⅛
50⅜	38⅞	AirPrC x	0.98	2.2	24	1540	45¼	44¼	44½	-⅞
39⅞	23	Airbne Frt	0.30	1.3	13	1576	23⅝	d22⅞	22⅞	-¾

[illegible]

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

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- R -

- S -

Continued on next page

There seems little prospect that the 10 per cent WDAs will be raised in the near key attraction being the level of financial flows involved.

Tel: (071)-828-1081 Fax: (071)-828-9976

AME

Have your

Financial Times

4 pm close October 5

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
45	37¾	StPaul x	1.50	3.7	4	1946	40⅝	39½	40⅝	+⅝
9⅜	5	Salant Crp			7	355	6	5¾	5¾	
49⅞	32	Sallie Mae	1.40	4.3	6	1835	32½	d32	32½	+⅛
13⅞	11⅞	Salomon Br	0.32	2.6		316	12¼	12	12⅛	
52¼	38⅛	Salomn	0.64	1.7	5	3509	38½	d37⅝	38½	+⅛
25	17½	SnDgGE	1.52	8.1	10	299	18⅞	18⅝	18¾	-¼
10	7½	SantaFeERe	0.16	1.9	8	452	8¾	8½	8⅝	-⅛
17⅞	13½	SFeGo				16018	16	15½	15⅝	-¼
40	31½	SantaFePac	2.80	8.5	15	61	33½	32½	32⅞	-⅝
39¼	12⅛	SanFeP	0.10	0.8	6	18794	12⅝	12⅜	12⅝	-¼
26	19⅜	SaraLee	0.64	2.8	15	4134	22⅝	22⅜	22½	
50⅛	42⅛	Scana Corp	2.82	6.4	11	69	44¼	43¾	43⅞	-¼
20½	12½	Scecrp x	1.00	7.6	9	25843	13¼	13	13⅛	-⅛
41¾	31¾	SchererRP			32	144	u42	41⅝	42	+¼
72½	54½	SchPl	2.04	2.9	16	5925	71⅛	70¼	70⅝	-½
63	50¾	Schlmb	1.20	2.2	22	6178	54⅝	53¾	54¼	-⅛
33⅞	23¾	Schwab(C)	0.28	1.0	13	2864	28⅝	27⅝	28¼	-½
10¾	6⅛	Schwitzer			25	8	8¾	8¾	8¾	-⅛
45¼	24⅞	SciAtl	0.12	0.3	78	2023	40	38⅞	39¼	-1
18⅞	13	Scotsmn x	0.10	0.6	14	92	15¾	15⅜	15½	-½
65⅜	37¼	ScottP	0.80	1.3	16	4501	61⅛	59½	59⅞	-1⅝
28⅝	18⅝	ScuddrNAsF	0.21	0.9		285	24	23⅝	23⅝	-⅜
12⅝	9½	ScuddrNEuF	0.16	1.7		124	9½	d9⅜	9⅜	-¼
18¾	13½	SeaCnB	0.70	4.4	7	27	16½	16	16	
16½	14⅞	SeaC1.4625	1.46	9.2		2100	15⅞	15⅞	15⅞	
32⅝	26¼	Seagrm	0.60	2.0	37	3133	29⅝	29⅛	29½	-⅜
29¾	22¾	Seagull En			29	112	22⅞	d22⅝	22⅝	-½
36¼	26⅝	Sealed Air			23	315	31⅞	31⅜	31½	-¼
55⅛	42⅛	SearsR	1.60	3.4	7	8523	47⅛	46	47	-¼
13¾	11¼	Seligm Sel	0.84	7.6		178	11⅜	d11	11	-¼
39¼	26	Sensormat	0.22	0.7	34	1865	33½	32¾	33½	+⅜

AMEX COMPOSITE PRICES

4 pm close October 5

NASDAQ NATIONAL MARKET

4 pm close October 5

AMERICA

Data block prospect of any Dow rebound

Wall Street

US stocks extended their losses yesterday morning after more troublesome economic data blocked any attempt to rebound from Tuesday's heavy losses, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 46.76 lower at 3,754.37, as key cyclical stocks wilted under the threat of an imminent increase in interest rates. The more broadly based Standard & Poor's 500 was also down sharply, retreating 4.84 to 449.75.

On the Big Board, declining issues swamped advances by a six-to-one margin in brisk activity. Volume reached 230m shares by early afternoon.

But the downturn was not restricted to the NYSE. The Nasdaq composite was down 8.94 at 738.36, while the American SE composite was set back 4.11 to 449.70.

The likelihood of a sixth increase in short-term interest rates this year continued to take its toll of share prices. After the release of yesterday's economic data, the Federal Reserve seemed more likely than before to tighten monetary policy, perhaps as early as Friday.

The Commerce Department said that orders of factory goods had jumped 4.4 per cent, confounding analysts who had predicted a 3.5 per cent increase after July's 2.0 per cent decline. It was the latest in the series of unfavourable surprises which suggested that the economy was expanding too fast.

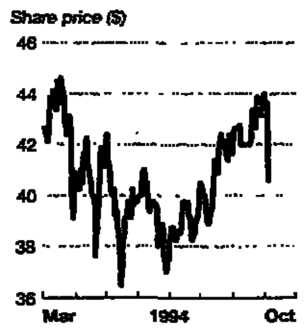
Bonds plunged on the news, as fixed-rate investors acted upon their anxieties over the unsettling outlook on inflation. By the early afternoon, the yield on the benchmark 30-year government bond was just below 8.00 per cent, an important psychological barrier.

The data on factory orders exacerbated the tensions felt within the financial markets in recent sessions as investors awaited the release of Friday's employment data. Many were speculating that the Fed would put up rates immediately if the report came in stronger than expected.

The prospect of another move to curb growth depressed those stocks whose fortunes are closely linked to the economic cycle.

Alcoa, the aluminium supplier, dropped \$1⅝ to \$82⅞. International Paper shed \$2¼ to \$75⅝ and Caterpillar, the heavy equipment manufacturer, gave back \$1⅝ to \$52¼.

Columbia HCA



Source: FT Graphite

Takeover speculation resurfaced in pharmaceuticals with talk of Hoechst, the German group, seeking to acquire Marion Merrell Dow. Dow Chemical, which owns 72 per cent of MMD, dropped \$2 to \$72.

The completion of another takeover in the healthcare field was given a mixed reception by investors. Columbia HCA lost \$2⅞ to \$40⅛ after agreeing to acquire HealthTrust, a Nashville-based hospital group, for \$3.68bn in newly issued stock. HealthTrust appreciated \$1¼ on the news.

Canada

Toronto was buffeted at midday by an interest rate-inspired downdraft which left the TSE 300 composite index 40.42 lower at 4,227.55 in turnover of C\$666.2m. The industrial products sector was the big loser, dropping 1.9 per cent, while consumer products fell 1.6 per cent as the volatile Cott Corp weakened C\$1⅞ to C\$15⅛ in busy dealings.

Mexico

Mexican share prices fell sharply following a rise in primary rates on longer term Treasury bills, or Cetes.

The IPC index of 37 leading shares declined 62.75 or 2.3 per cent to 2,607.27, dropping below the short-term support level of 2,650.

Bullion worries pressure South Africa

Johannesburg was under pressure from the sharp losses on Wall Street and gold price weakness, leaving the overall index 38 lower at 5,616. Industrials declined 31 to 6,270 and golds receded 34 to 2,366.

Spot prices were less sensitive to the negative sentiment than futures, however, where near term index futures posted steep falls amid concern that gold's expected break above \$400 an ounce would not materialise.

South Africa's split country ratings from S&P and Moody's did little to spur investment, although analysts expected that the country's forthcoming inclusion in emerging market indices could prompt renewed interest.

De Beers slipped R1 to R101 and Anglos fell R1.50 to R236.50. Minorco lost R1 at R110. Barlows retraced some of its recent steady gains, giving up R1 to R30. SAB eased 50 cents to R83.50 and Sasol was off 25 cents at R35.75.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Sept. 30 1994	% Change over week	% Change on Dec '93	Local currency terms: Sept. 30 1994	% Change over week	% Change on Dec '93
Latin America	(209)	778.85	-1.4	+19.7			
Argentina	(25)	959.54	-0.2	-3.5	588,799.85	-0.2	-3.5
Brazil	(57)	450.11	+1.1	+93.4	1,438,337,523	+0.7	+1,315.4
Chile	(25)	780.08	+3.2	+37.7	1,255.72	+2.9	+31.7
Colombia[1]	(11)	889.23	-1.6	+37.9	1,323.29	-1.8	+42.7
Mexico	(68)	983.05	-3.7	-2.3	1,437.57	-3.7	+6.5
Peru[2]	(11)	186.77	+2.9	+54.4	256.96	+2.9	+61.6
Venezuela[3]	(12)	554.54	-2.9	-6.3	2,167.16	-2.9	+52.5
Asia	(557)	278.22	-2.7	-4.4			
China[4]	(18)	105.53	-1.7	-29.3	113.75	-1.7	-30.7
South Korea[5]	(156)	148.79	+1.1	+25.9	156.23	+0.8	+24.5
Philippines	(18)	298.50	-4.3	-12.3	365.84	-4.0	-17.6
Taiwan, China[6]	(90)	164.39	+3.1	+21.6	161.69	+3.0	+20.9
India[7]	(76)	136.07	-3.2	+16.8	150.48	-3.2	+16.8
Indonesia[8]	(37)	106.84	-3.6	-14.3	126.14	-3.6	-11.4
Malaysia	(105)	309.63	-3.9	-8.7	292.92	-3.7	-13.1
Pakistan[9]	(15)	412.60	+1.4	+6.4	572.99	+1.4	+8.5
Sri Lanka[10]	(5)	206.45	-0.9	+16.5	220.81	-1.4	+15.6
Thailand	(55)	434.64	-0.8	-9.0	430.24	-0.9	-11.0
Euro/Mid East	(125)	117.81	+1.6	-30.4			
Greece	(25)	221.13	-0.7	-2.9	354.48	-0.3	-7.8
Hungary[11]	(5)	176.41	-1.4	+5.9	228.96	-1.5	+13.4
Jordan	(13)	157.27	+3.1	-5.0	225.83	+3.2	-5.7
Poland[12]	(12)	566.74	+0.7	-30.7	831.54	+1.2	-24.7
Portugal	(25)	123.53	-0.3	+8.6	134.28	-0.1	-2.8
Turkey[13]	(40)	116.74	+3.9	-45.1	1,866.92	+3.8	+28.3
Zimbabwe[14]	(5)	264.66	+0.3	+31.0	323.72	+0.2	+51.5
Composite	(891)	371.12	-1.8	+4.3			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

Taiwan shares plunged 3.3 per cent yesterday after reports that a securities brokerage controlled by a leading stock market player, Mr Oung Da-ming, had bounced a T\$200m cheque, *writes Laura Tyson.*

Panic selling set in as investors feared a chain reaction in the market, fuelled by a likely tightening of credit terms by underground financiers. Stock market speculators often finance their share purchases through margin loans from informal lenders.

An official from the brokerage, Hong Fu Securities, confirmed the report but said that the problem would be resolved shortly.

Mr Oung is the de facto head of the Hualon Group, one of Taiwan's 10 biggest industrial conglomerates, and a member of the country's Legislative Yuan, or parliament.

The benchmark weighted index, which hit a four-year high of 7,183.75 on Monday, closed 235.33 down at 6,944.59. Shares in Hualon, the group's flagship textile manufacturer, and Chia Hsin Livestock, a company controlled by the group, dropped by the daily limit of 7 per cent.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY OCTOBER 4 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY OCTOBER 3 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	168.05	-1.9	157.84	105.90	135.59	151.25	-1.6	3.67	171.22	160.87	108.04	138.63	153.69	189.15	144.27	144.27
Austria (16)	181.16	-0.5	170.15	114.16	146.15	146.06	-0.9	1.10	182.08	171.06	114.89	147.41	147.35	198.89	167.46	170.96
Belgium (37)	163.92	0.5	153.96	103.30	132.26	129.02	0.1	4.27	163.18	153.31	102.96	132.12	128.86	177.04	147.45	147.45
Canada (103)	*135.48*	*-1.7*	*127.24*	*85.37*	*109.31*	*131.88*	*-1.8*	*2.55*	*137.80*	*129.46*	*86.95*	*111.57*	*134.26*	*145.31*	*120.54*	*121.87*
Denmark (33)	247.99	-0.4	232.92	156.27	200.08	204.89	-0.8	1.45	249.00	233.94	157.11	201.59	206.56	275.79	229.79	229.79
Finland (24)	182.38	1.1	171.29	114.93	147.15	183.86	0.3	0.77	180.31	169.40	113.77	145.98	183.32	182.38	111.52	111.52
France (101)	164.73	1.2	154.72	103.80	132.91	136.82	1.0	3.16	162.69	152.85	102.65	131.72	135.56	185.37	159.34	169.59
Germany (58)	136.65	-0.6	128.35	86.11	110.25	110.25	-0.9	1.87	137.45	129.14	86.73	111.28	111.28	150.40	128.37	128.52
Hong Kong (56)	391.43	0.1	367.64	246.66	315.82	388.34	0.1	3.13	390.95	367.30	246.68	316.53	387.85	506.56	307.63	307.63
Ireland (14)	202.05	0.0	189.77	127.33	163.02	182.41	-0.1	3.51	202.06	189.84	127.50	163.60	182.56	216.60	171.04	171.04
Italy (59)	81.59	0.1	76.63	51.41	65.83	95.33	0.0	1.62	81.53	76.60	51.44	66.01	95.32	97.78	57.88	73.26
Japan (468)	158.09	-0.3	148.48	99.62	127.55	99.62	-0.5	0.77	158.61	149.01	100.08	128.41	100.08	170.10	124.54	153.40
Malaysia (97)	558.40	0.1	524.47	351.88	450.54	551.54	0.1	1.52	557.72	523.99	351.91	451.55	551.21	621.83	418.19	418.19
Mexico (18)	2231.90	-2.3	2096.23	1406.43	1800.72	8312.68	-2.0	1.23	2284.80	2146.41	1441.52	1849.65	8461.50	2647.08	1664.06	1664.06
Netherland (19)	208.71	0.4	196.03	131.52	168.40	165.56	0.1	3.49	207.92	195.35	131.20	168.34	165.46	218.19	187.01	187.19
New Zealand (14)	72.23	-0.8	67.84	45.52	58.28	63.59	-0.9	3.82	72.85	68.44	45.97	58.98	64.17	77.59	59.22	59.79
Norway (23)	198.27	1.7	186.22	124.94	159.96	181.95	1.2	1.82	194.89	183.10	122.97	157.78	179.87	211.74	166.52	173.82
Singapore (44)	388.56	1.9	364.94	244.85	313.50	265.11	1.7	1.59	381.40	358.34	240.66	306.80	260.74	388.56	294.66	301.04
South Africa (59)	314.16	0.8	295.07	197.97	253.47	289.77	-0.4	2.21	311.64	292.97	196.76	252.47	291.03	314.24	202.72	204.16
Spain (38)	138.02	0.6	129.63	86.97	111.35	134.36	0.4	4.13	137.13	128.84	86.53	111.03	133.62	155.79	128.88	137.07
Sweden (36)	222.65	1.2	209.31	140.43	179.81	244.09	0.0	1.64	220.14	206.83	138.91	178.24	244.05	231.35	175.63	190.33
Switzerland (47)	161.26	1.5	151.46	101.63	130.12	126.93	1.1	1.96	158.91	149.30	100.27	128.66	127.55	176.56	141.38	141.38
United Kingdom (204)	192.67	0.6	180.96	121.41	155.45	180.96	0.5	4.20	191.57	179.98	120.88	155.10	179.98	214.98	181.11	188.93
USA (514)	185.78	-1.4	174.48	117.07	149.89	185.78	-1.4	2.93	188.50	177.10	118.94	152.62	188.50	196.04	178.95	188.50
EUROPE (709)	167.05	0.6	156.90	105.27	134.78	147.70	0.3	3.14	166.13	156.08	104.82	134.50	147.23	178.58	154.79	158.37
Nordic (116)	217.59	0.9	204.37	137.12	175.56	203.99	0.0	1.45	215.68	202.64	136.09	174.62	204.08	222.18	173.19	180.25
Pacific Basin (747)	167.91	-0.3	157.71	105.81	135.48	110.55	-0.4	1.09	168.45	158.26	106.29	136.38	111.01	178.86	134.79	158.49
Euro-Pacific (1456)	167.43	0.1	157.25	105.51	135.08	125.53	-0.1	1.96	167.34	157.22	105.59	135.48	125.67	175.14	143.88	158.33
North America (617)	182.65	-1.5	171.56	116.10	147.36	182.04	-1.5	2.91	185.35	174.14	116.95	150.06	184.74	192.73	175.67	184.38
Europe Ex. UK (505)	149.64	0.6	140.54	94.30	120.73	127.94	0.2	2.51	148.82	139.82	93.90	120.49	127.69	158.12	135.94	138.91
Pacific Ex. Japan (279)	262.82	-0.2	246.85	165.62	212.05	233.97	-0.2	2.77	263.48	247.55	166.25	213.33	234.47	296.21	208.35	208.35
World Ex. US (1636)	169.38	0.0	159.03	106.74	136.66	129.30	-0.2	1.97	169.40	159.16	106.89	137.15	129.54	176.65	145.58	158.50
World Ex. UK (1946)	171.98	-0.6	161.52	108.37	138.75	143.32	-0.8	2.10	173.07	162.60	109.21	140.12	144.41	178.59	155.96	165.43
World Ex. So. Af. (2091)	172.91	-0.5	162.40	108.96	139.51	145.72	-0.6	2.30	173.84	163.33	109.69	140.75	146.65	180.03	158.54	167.37
World Ex. Japan (1682)	184.30	-0.6	173.00	116.07	148.61	174.36	-0.7	2.95	185.31	174.10	116.92	150.03	175.59	195.20	178.34	176.93
The World Index (2150)	173.81	-0.5	163.25	109.53	140.23	146.78	-0.6	2.30	174.72	164.15	110.24	141.46	147.71	180.80	158.85	167.51

Please note: A final list of constituents for the FT-AWI Large & Medium-Small Cap Indices is now available from NatWest Securities Limited and Goldman, Sachs & Co. Latest prices were unavailable for this edition.

EUROPE

Bourses suffer again from domino effect

The domino effect wreaked more havoc yesterday, as higher than expected US factory orders hit Treasuries, the Dow, European bond markets and equities, *writes Our Markets Staff.*

Equity valuations were not sufficiently cheap in Europe to make up for lack of impetus from America, said Mr Andrew Bell, director of European strategy at Barclays de Zoete Wedd. "On the way up," he said, "interest rate-driven markets took prices to the point where we were looking at 1996 earnings at the end of 1993."

If bond yields rose further, he added, equities in Europe might have to become visibly undervalued to bring in the buyers. Mr Bell was not, however, looking for any repeat of October 1987. "There is more risk of a 5 per cent crumble than a 30 per cent crash," he maintained.

FRANKFURT's Dax index fell 26.23 to a new 1994 closing low of 1,968.72 on the session. After an intraday low of 1,930.55, it lost 42.8 or 2.1 per cent to 1,946.49 in the post bourse. Turnover rose from DM6bn to DM7.5bn.

Dealers reported domestic and US selling and Mr Glen Liddy at Kleinwort Benson said that stocks which had been favoured to a degree in recent weeks were punished yesterday. In chemicals, Bayer and Hoechst fell DM11 to DM331 and DM13.10 to DM309.50; in utilities, RWE by DM16.50 to DM425.50, and Veba by DM22.50 to DM487.

Among second liners, Asko dropped a further DM45 to DM730 on the session following Tuesday's loss of DM85 on a DB Research downgrade.

PARIS, too, established a new 1994 low as the CAC 40 index declined 42.40 or 2.3 per cent to 1,833.72 in turnover of FFr3.7bn. Financials were weak, with Crédit Local down FFr17.30 at FFr377.50, and Suez by FFr10 at FFr240.

Bouygues, the sole riser for much of the day, ended FFr9 higher at FFr587. One of the construction company's consortiums was awarded the potentially lucrative licence to run France's third mobile telephone system; and another got the contract for the St Denis stadium in north Paris which will be the main venue for the 1998 soccer World Cup.

Bouygues beat groups led by Alcatel Alsthom, which fell another FFr19.40 to FFr461.60, and Lyonnaise des Eaux, which dropped FFr14 to FFr475; Lyonnaise, at least, had the consolation of forming part of the winning sports stadium consortium.

FT-SE Actuaries Share Indices

Oct 5 Hourly changes	Open	11.00	11.30	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1302.07	1299.69	1296.98	1296.51	1295.75	1296.68	1290.01	1286.48
FT-SE Eurotrack 200	1351.96	1349.85	1348.18	1348.41	1346.28	1346.73	1340.06	1335.96

THE EUROPEAN SERIES

	Oct 4	Oct 3	Sep 30	Sep 29	Sep 28
FT-SE Eurotrack 100	1312.97	1309.82	1318.93	1330.58	1346.01
FT-SE Eurotrack 200	1360.61	1357.86	1359.89	1375.17	1388.74

Base 1000 (26/10/90): High/day: 100 - 1302.43; 200 - 1352.08 Low/day: 100 - 1286.07 200 - 1335.00 † Partial

AMSTERDAM fell 2.1 per cent and Elsevier came under pressure on ratings warnings after its takeover of Mead Data Central for \$1.5bn.

The AEX index dropped 8.36 to 390.13. Elsevier fell 60 cents to Fl 16.10 following its 10-for-one share split, after Standard & Poor's placed Reed Elsevier ratings on CreditWatch negative and Moody's put its long-term debt ratings on review for a possible downgrade.

A Fl 5.90 fall to Fl 178.60 in VNU was attributed to worries that its television affiliate RTL may lose star performers.

Chemicals and internationals were under pressure, with Akzo Nobel down Fl 4.80 at Fl 197.30, DSM Fl 4.30 lower at Fl 139.60 and Royal Dutch Petroleum falling Fl 3.80 to Fl 185.

MILAN saw one of its worst fears come true as the government unexpectedly found itself pitched into renewed battle with the country's anti-corruption magistrates.

The Comit index fell 16.04 or 2.4 per cent to 641.94, on a day which saw allegations that the prime minister could become involved in a formal graft investigation, the justice minister offer his resignation and a government spokesman call for a criminal suit against the country's chief prosecutor.

Among the blue chip stocks, Fiat fell L126 or 1.9 per cent to L6,351 and Stet lost L214 or 4.5 per cent at L4,492. A further L1,037 or 5.1 per cent fall to L19,257 in Benetton was attributed to renewed rumours that the company might launch a capital increase.

ZURICH's interest rate worries came to the fore and the SMI index dropped 41.1 or 1.7 per cent to 2,480.4.

Attention continued to focus on UBS following last Friday's share restructuring announcement. The bearers fell another SFr10 to SFr1,181 and the registered shares were SFr2 lower at SFr285.

The weaker dollar weighed on industrials, leaving Brown Boveri and Sulzer down SFr28 at SFr1,062 and SFr13 at SFr802 respectively.

Profit-taking eroded some of Swiss Re's recent sharp gains on the sale of its direct investment activities, the shares falling SFr6 to SFr665.

Drug stocks followed the lower trend, with Ciba declining SFr12 to SFr718 and Roche certificates giving up SFr105 to SFr5,620.

MADRID ended off its worst, with the general index down 5.65 or 1.9 per cent at a new closing low of 290.07, after 286.97, in turnover of Pta35.8bn. Rough treatment was meted out to selected banks, utilities and construction stocks.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Tokyo picks up as Hong Kong falls 2.2%

Tokyo

Buying by public funds and arbitrageurs lifted prices during the afternoon session and the Nikkei 225 average gained 0.9 per cent, *writes Emiko Terazono in Tokyo.*

The index ended 182.94 higher at 19,751.55. Investors were initially discouraged by Tuesday's sharp decline on Wall Street and the market saw a low of 19,487.70 briefly after the opening. However, a rise in futures prompted active arbitrage buying, while a rebound in Japan Telecom provided further support, and the Nikkei rose to a high of 19,752.55 just before the close.

Volume remained below 200m shares for the third consecutive session, at 197m against 161m. Traders now expect most investors to remain absent ahead of the October 27 listing of Japan Tobacco.

The Topix index of all first section stocks gained 9.26 at 1,582.05, while the Nikkei 300 put on 2.39 at 289.89. In spite of the rise in the indices, losers led gainers by 491 to 478, with 212 issues unchanged. In London the ISE/Nikkei 50 index was up 0.72 at 1,300.27.

Japan Telecom was ahead Y340,000 at Y4.14m after hitting a record low of Y3.73m in the morning. Some dealers had feared initially that investors looking to purchase Japan Tobacco stock would sell high-priced former state-owned companies' shares to raise funds. But NTT recovered Y15,000 to Y877,000 after a three-day fall, and East Japan Railway improved Y8,000 to Y483,000.

Nippon Shinpan, a consumer credit company sold on Tuesday on fears of financial problems at its subsidiaries, rebounded Y27 to Y785. The company denied rumours that its finance affiliates were suffering from mounting bad loans.

Paper and pulp issues were stronger on hopes of improving demand. Honshu Paper rose Y32 to Y650 and New Oji Paper added Y20 at Y1,020.

High-technology stocks were mixed. Sony declined Y30 to Y5,770, but NEC rose Y30 to Y1,220 and Matsushita Electric Industrial firmed Y10 to Y1,580.

In Osaka, the OSE average put on 6.30 at 21,969.28 in volume of 9.6m shares. Buying by public funds supported the index.

Roundup

There was a conventional response in the region to Wall Street's overnight losses, but several markets moved higher.

HONG KONG was rocked by the US sell-off, the Hang Seng index losing 205.76 or 2.2 per cent at 9,298.36 as October Hang Seng futures broke down in the last 15 minutes of trading. Turnover expanded from HK\$3.19bn to HK\$3.60bn.

Property shares again led the market down, with Henderson Land dropping HK\$1.90 to HK\$46.40 ahead of its results. Sun Hung Kai fell HK\$1.25 to HK\$55.50 and Hysan Development HK\$1.25 to HK\$20.20.

The mainland Chinese companies' H-share index fell 41.45 or 3 per cent to 1,326.07. However, SHANGHAI's A share index shed 11.1 per cent on plans to ban same-day settlement, closing 90.11 off at 723.37.

SYDNEY blamed programme selling as the All Ordinaries index dipped 18.3 to 1,979.8. Turnover increased from A\$364.7m to A\$439m.

News Corp recovered 4 cents to A\$8.10, dealers saying the media group had been oversold since announcing, last Friday, its intention to issue limited voting preference shares.

SEOUL lost ground after three days of rises, the composite index closing 7.35 down at 1,057.24. The Finance Ministry announcement that it would raise the limit for foreign shareholdings on the market to 12 per cent from the current 10 per cent by December 1 failed to boost prices.

WELLINGTON's NZSE 40 index shed 1 per cent for the second consecutive day, ending 22.49 lower at 2,035.01. Turnover picked up through the session and finished at NZ\$42m.

MANILA drew comfort from lower domestic inflation figures which helped the market to overcome a soft start. The composite index gained 19.7 at 2,973.31, but volume fell to 1.9bn shares from 3.2bn.

Megaworld Properties and Holdings led gainers, closing 8 per cent up at 13.50 pesos on news of its link with another group to develop a 215-hectare property in Cavite.

KUALA LUMPUR rebounded on institutional bargain hunting and the composite index rose 8.06 to 1,133.72. KLI Holdings led activity, adding 40 cents at M\$6.00 on new projects totalling M\$4.8bn.

KARACHI ended higher on demand for synthetics and selective blue chips on expectations of good annual results and increased dividends.

The KSE 100-share index closed 13.91 higher at 2,324.67.

SINGAPORE's Straits Times Industrial index, up 10.27 at 2,380.83, rose for the sixth consecutive session after a late revival of interest in property shares. In the property sector, CDL rallied 20 cents to S\$8.35 and DBS 4 cents to S\$4.94.

JAKARTA firmed as local investors, net sellers in the run-up to Tuesday's launch of Indosat, the telecoms group, returned to the secondary market. The market index picked up 2.91 to 503.64.